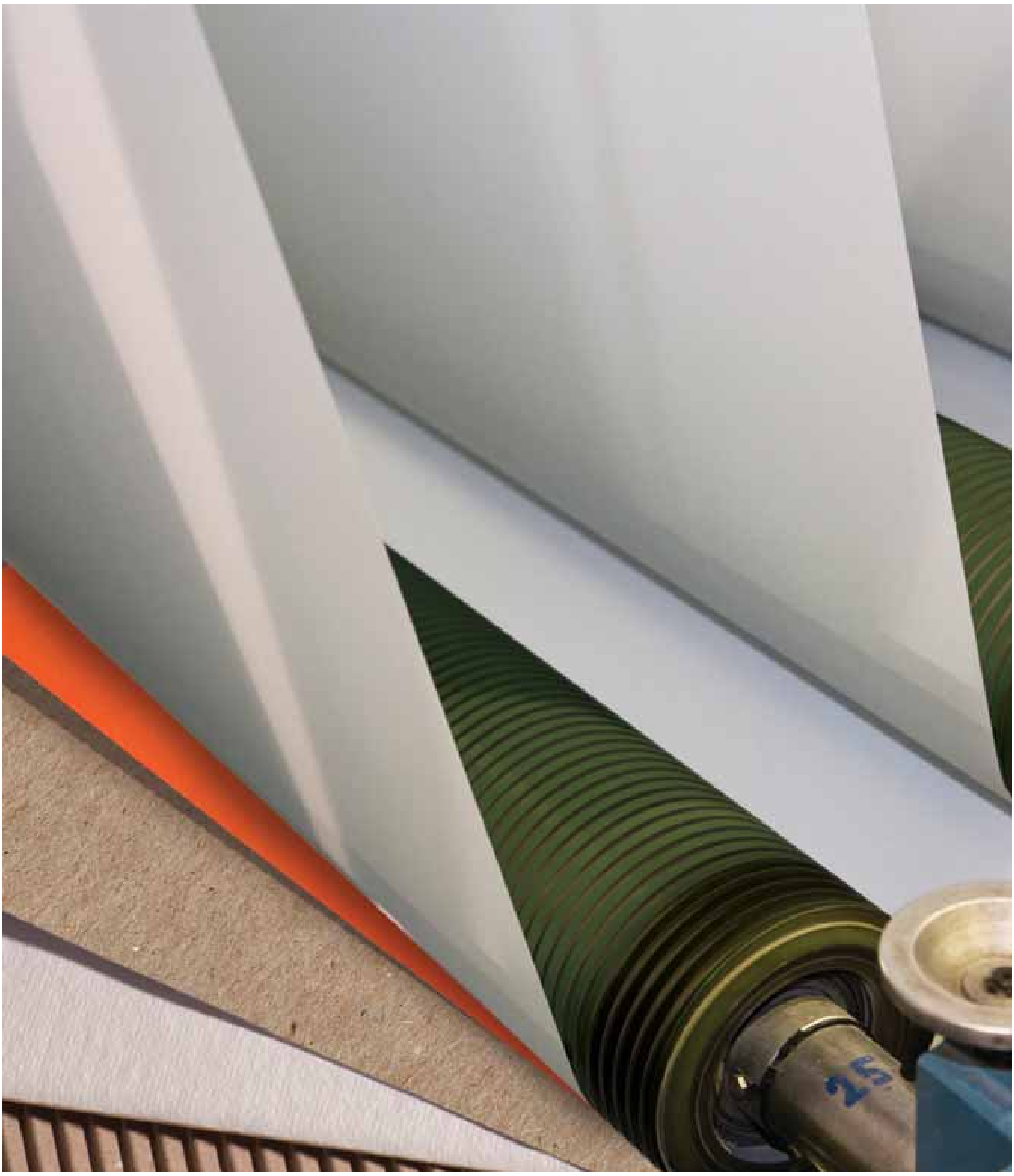
Mondi Group

Annual report and accounts 2010



The Mondi Group

Mondi is an international paper and packaging Group, with production operations across 31 countries and revenues of €6.2 billion in 2010. The Group's key operations are located in central Europe, Russia and South Africa and as at the end of 2010, Mondi employed 29,000 people.

Mondi is fully integrated across the paper and packaging process, from the growing of wood and the manufacture of pulp and paper (including recycled paper), to the conversion of packaging papers into corrugated packaging, industrial bags and coatings. The Group is principally involved in the manufacture of packaging paper, converted packaging products and uncoated fine paper (UFP).

Mondi is a dual listed company (DLC), with Mondi Limited and Mondi plc (together 'the Mondi Group' or 'Mondi') each with separate identities and listings whilst operating as a single corporate group. Mondi Limited has a primary listing on the JSE Limited (JSE) (ticker: MND), while Mondi plc has a premium listing on the London Stock Exchange and a secondary listing on the JSE under the ticker codes MNDI and MNP respectively. The DLC structure requires compliance with the corporate and accounting regulations of South Africa and the UK.

Mondi aims to be the best-performing paper and packaging Group in the world and, as such, recognises the need to integrate sound principles governing safety, business conduct, social, environmental and economic activities into business practices and decision-making.

The Group has been recognised for its sustainability through its inclusion in the FTSE4Good UK, Europe and Global indices in 2008, 2009 and 2010 and the JSE's Socially Responsible Investment (SRI) Index in 2007, 2008, 2009 and 2010.

The design of our 2010 report

The 2010 financial and operational year has been a successful one for Mondi. The Group's product mix and geographical strongholds have maintained the turnaround which began towards the end of 2009. This annual report reflects the many layers that contribute to the Group's success, not just in physical products and locations but also people and business practices. These layers are used as a design technique to bring out the performance highlights and key messages from the reporting period, across all aspects of the business. This integrated approach to reporting provides the reader with a multi-dimensional insight into the Group and its performance during the year under review.

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Performance highlights and overview

for the year ended 31 December 2010

Modernisation of Russian pulp and paper mill successfully completed

The 2010 financial year saw a much improved financial performance from the Mondi Group. After the turmoil of 2008 and early 2009 created by the global financial crisis, the recovery noted in late 2009 continued into 2010. Pleasingly, this translated into a much improved return on capital employed (ROCE), increasing to 12.3% for the year. Mondi's strong performance confirms the validity of our strategy and reflects the commitment of all our employees. Given the strong financial performance and good cash generation, we are pleased to recommend an increase in the full year dividend to 20.0 euro cents per share.

- Significant improvement in financial performance
  - Underlying operating profit up 73%
  - Underlying earnings per share up 151%
  - Return on capital employed up by 4.7 percentage points to 12.3%
- Achieved production records at 6 out of the 8 largest paper mills
- Modernisation of Russian pulp and paper mill successfully completed and running to plan
- Continued strong cash management, with net debt down to €1.36 billion
- Proposed full year dividend of 20.0 euro cents per ordinary share, up 111%

Financial summary € million	Year ended 31 December 2010	Year ended 31 December 2009	Change %
Group revenue	**6,228**	5,257	18
EBITDA[1]	**882**	645	37
Underlying operating profit[2]	**509**	294	73
Underlying profit before tax[3]	**394**	182	116
Profit before tax[4]	**372**	49	659
Basic earnings/(loss) per share (€ cents)	**44.1**	(6.5)	
Underlying earnings per share (€ cents)[5]	**47.0**	18.7	151
Headline earnings per share (€ cents)[5]	**47.0**	11.4	312
Total dividend per share (€ cents)	**20.0**	9.5	111
Cash generated from operations	**778**	867	(10)
Net debt	**1,364**	1,517	(10)
Group return on capital employed (ROCE)[6]	**12.3%**	7.6%	62

Notes:

1 EBITDA is operating profit of subsidiaries and joint ventures before special items, depreciation and amortisation.

2 Underlying operating profit is operating profit of subsidiaries and joint ventures before special items.

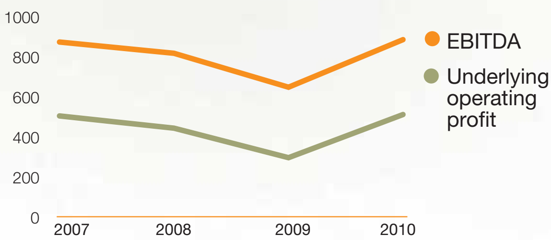
3 Underlying profit before tax is profit before tax and before special items.

4 Profit before tax is reported after special items of €22 million (2009: €133 million).

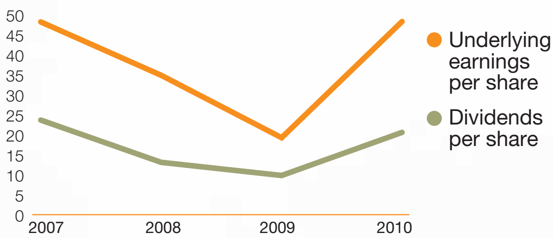
5 The Group has presented underlying earnings per share to exclude the impact of special items, and headline earnings per share in accordance with Circular 3/2009, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

6 Group return on capital employed (ROCE) is an annualised measure based on a 12 month underlying operating profit plus share of associates' net earnings divided by average trading capital employed before impairments and adjusted for major capital projects not yet commissioned.

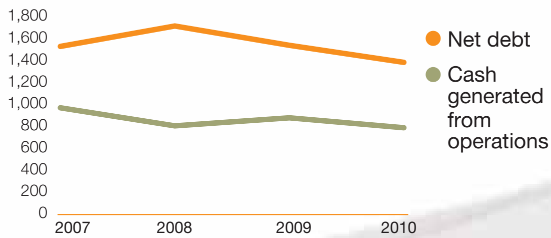
EBITDA and underlying operating profit (€ million)



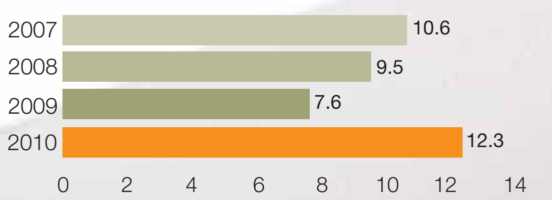
Underlying earnings per share and dividends per share (€ cents)



Cash generated from operations and net debt (€ million)

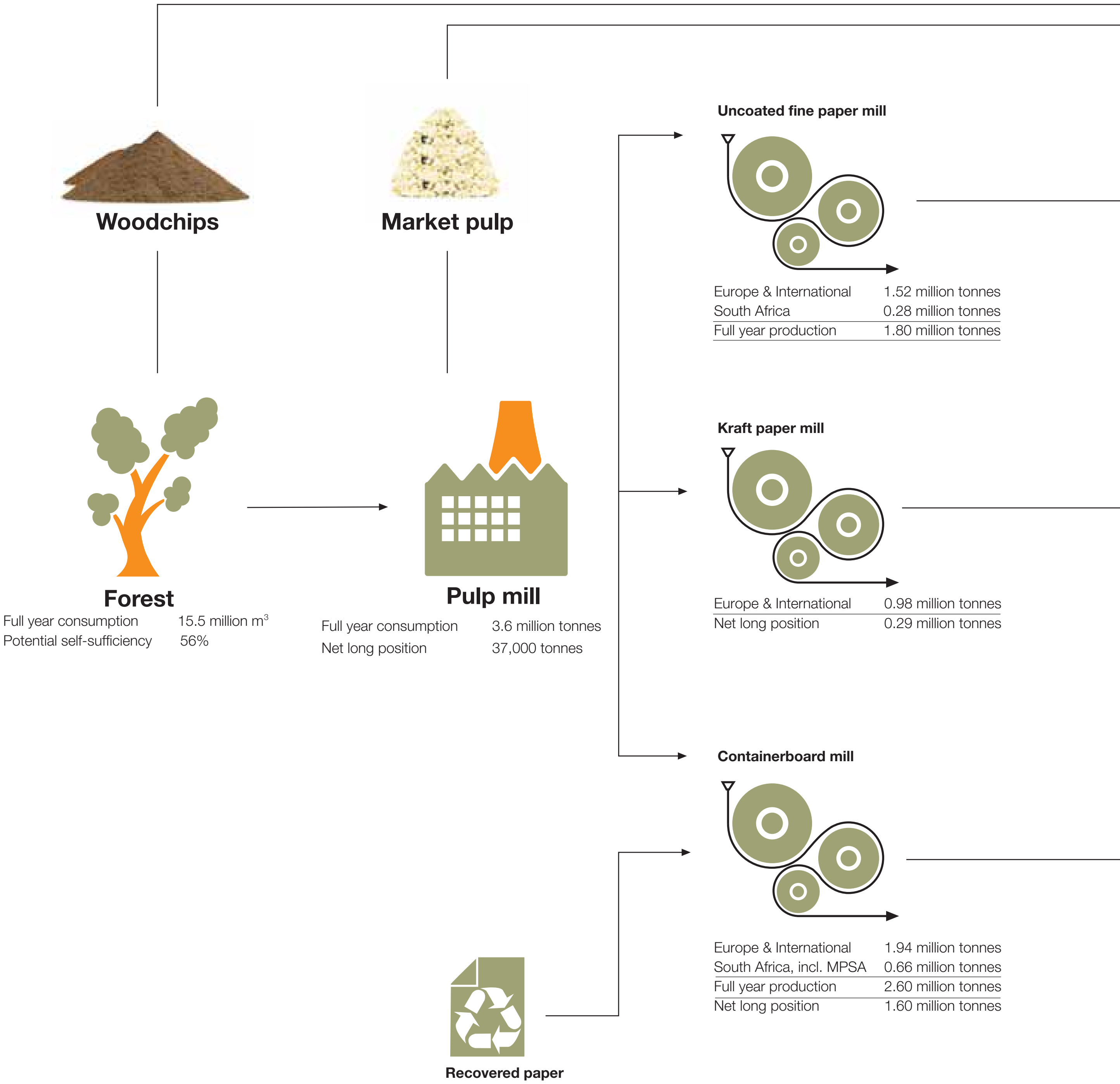


Group ROCE (%)



Underlying profit measures are disclosed to provide an additional basis on which to evaluate the Group's performance. A reconciliation of the underlying measures to the statutory results is included in the annual financial statements.

Integrated value chain



Finishing

Paper production by type	
Cut-size	1.29 million tonnes
Other	0.51 million tonnes
Full year production	1.80 million tonnes

Office & printing paper

Converting plant

Full year production 3.9 billion units

Industrial bags

Coatings and consumer packaging

Converting plant

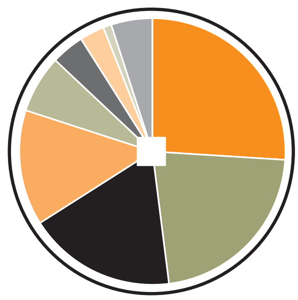
Full year production 3.7 billion m²

Corrugated box plant

Full year production 1.7 billion m²

Corrugated boxes

Virgin & recycled containerboard



Contribution to Group revenue

Corrugated products	26%
Uncoated fine paper	22%
Kraft paper & industrial bags	18%
Coatings and consumer packaging	14%
Merchant	7%
Pulp	4%
Newsprint	3%
Woodchips	1%
Other	5%

Group structure

mondi

Europe & International Division

Uncoated Fine Paper
- Pulp
- Uncoated fine paper

Corrugated
- Containerboard
- Corrugated packaging

Bags & Coatings
- Kraft paper
- Industrial bags
- Coatings & consumer packaging

South Africa Division
- Forests
- Pulp
- Uncoated fine paper
- Containerboard

Other subsidiaries & joint ventures

Mondi Packaging South Africa 70%
- Containerboard
- Corrugated packaging
- Plastic packaging

Newsprint
- Aylesford Newsprint 50%
- Mondi Shanduka Newsprint 50%

Mondi products

Mondi's core business is the manufacture of packaging paper, converted packaging products and uncoated fine paper (UFP).

Pulp

Both hardwood and softwood pulp is produced largely for internal use. A total of 3.7 million tonnes was produced in 2010, with 0.5 million tonnes sold externally.

UFP

Mondi is a leading European, Russian and South African producer of UFP, used for a wide range of office and professional printing applications for inkjet and laser printing. Well-known brands include Color Copy, MAESTRO® and IQ, as well as the Russian Snegurochka and South African ROTATRIM brands.

Containerboard

A wide-ranging portfolio of corrugated case materials (virgin and recycled containerboard) is produced for corrugated box applications. To meet the corrugated industry's increasing demand for excellent lightweight liners and flutings, Mondi has invested in the construction of one of the world's fastest containerboard machines (1,700 m/min) in Poland.

Corrugated boxes

Mondi is a leading supplier of all forms of corrugated packaging, including conventional boxes and trays, point-of-sale displays, Shelf-Ready Packaging (SRP) and heavy-duty packaging. Radio Frequency Identification (RFID) enabled corrugated cases are an integral part of the Group's portfolio.

Kraft paper

Kraft papers within the Advantage range are widely used, from industrial applications (including building and chemicals) to consumer packaging (including food, pet food, medical and pharmaceuticals). A wide range of grades is offered, each catering to the specific requirements of different packaging concepts.

Industrial bags

Mondi is the world's largest producer of industrial bags and offers a wide variety, including ultra-strong and air-permeable bags with sophisticated closure techniques. These products are used to package, among other things, cement, chemicals, seeds, animal feed, flour and milk powder, as well as automotive parts and organic and bio-waste.

Coatings & consumer packaging

These are high-quality products, such as extrusion coating products, release liners and consumer packaging. The Group's expertise in extrusion coating, laminating, siliconising and printing enables Mondi to offer customised products for the food, pet food, building, medical and hygiene industries among others. Sanocoat®, an anti-microbial packaging solution for increased shelf-life, is a recent innovation.

Newsprint

Mondi is a small producer of newsprint and telephone directory paper, manufactured in South Africa and the UK.

Global operations

Mondi's operational footprint at 31 December 2010 spans the globe, with 103 unique operating sites located in 31 countries.

Key to operations

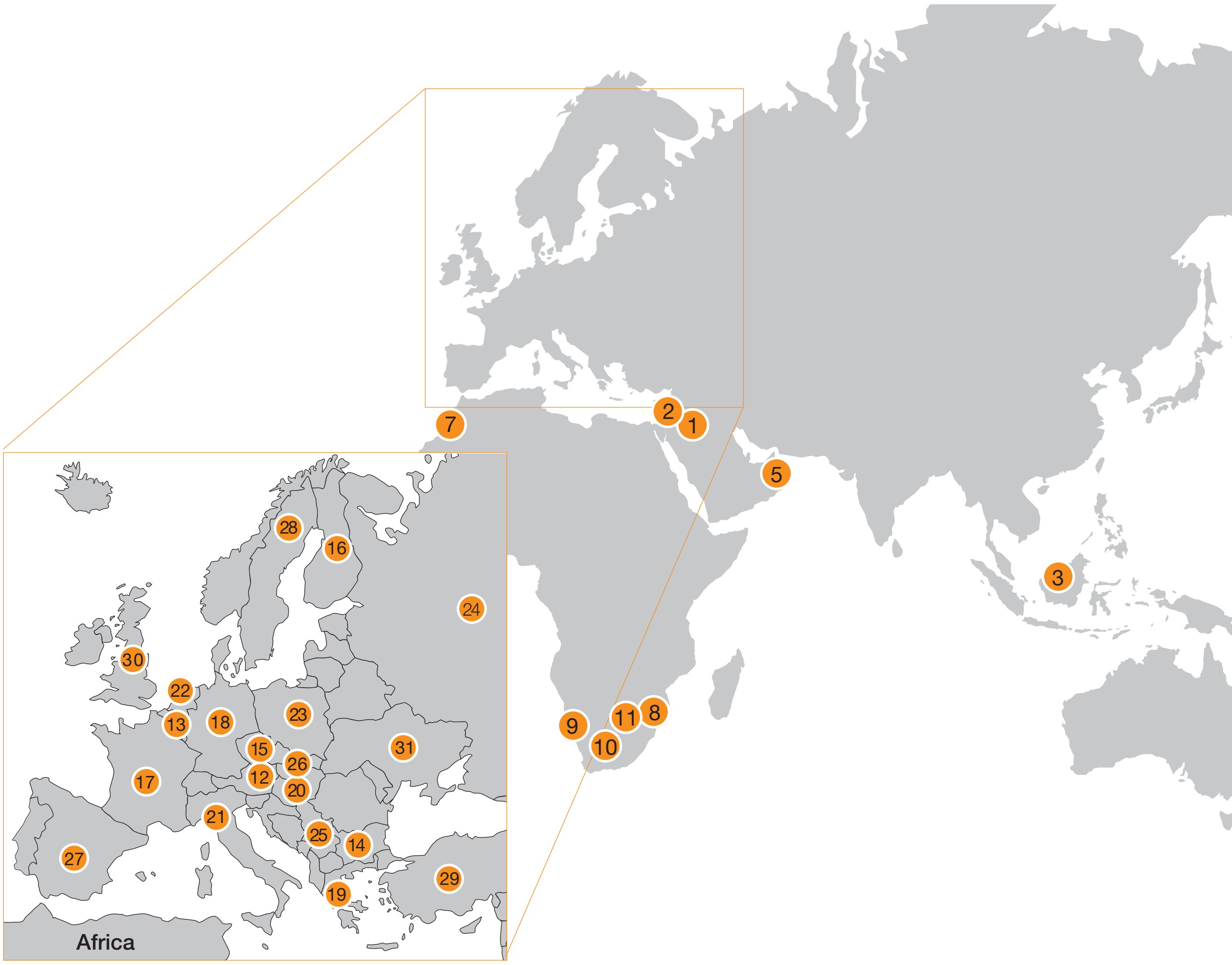
- Uncoated Fine Paper
- Corrugated
- Industrial bags
- Coatings & consumer packaging
- Newsprint

Operations – International

Ref	Country	Type of operation
1.	Jordan	Industrial bags
2.	Lebanon	Industrial bags
3.	Malaysia	Industrial bags
4.	Mexico	Industrial bags
5.	Oman	Industrial bags
6.	USA	Coatings & consumer packaging

Operations – Africa

Ref	Country	Type of operation
7.	Morocco	Industrial bags
8.	Mozambique	Corrugated
9.	Namibia	Corrugated
10.	South Africa	Uncoated Fine Paper, Corrugated, Coatings & consumer packaging, Newsprint
11.	Zimbabwe	Coatings & consumer packaging



Operations – Europe including Russia

Ref	Country	Type of operation
12.	Austria	
13.	Belgium	
14.	Bulgaria	
15.	Czech Republic	
16.	Finland	
17.	France	
18.	Germany	
19.	Greece	
20.	Hungary	
21.	Italy	

Ref	Country	Type of operation
22.	The Netherlands	
23.	Poland	
24.	Russia	
25.	Serbia	
26.	Slovakia	
27.	Spain	
28.	Sweden	
29.	Turkey	
30.	UK	
31.	Ukraine	

Divisional overview

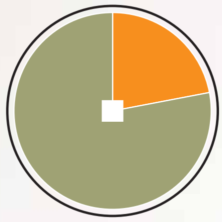
Europe & International Division

2010 Production

Uncoated Fine Paper (UFP)

- UFP: 1.5 million tonnes
- Newsprint: 0.2 million tonnes
- Pulp: 1.1 million tonnes

Contribution to Group revenue

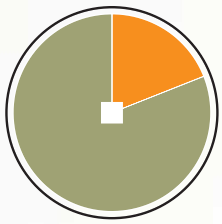


UFP 22%

Corrugated

- Containerboard: 1.9 million tonnes
- Corrugated: 1.3 billion m²
- Pulp: 0.7 million tonnes

Contribution to Group revenue

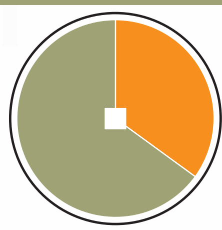


Corrugated 19%

Bags & Coatings

- Kraft paper: 1.0 million tonnes
- Pulp: 1.0 million tonnes
- Bag converting: 3.9 billion units
- Coatings and consumer packaging: 3.7 billion m²

Contribution to Group revenue



Bags & Coatings 35%

	Key products & operations	Key statistics		Market positions
	• 2.1 million hectares of forest in the Komi Republic in Russia, with an allowable cut of 5.1 million m^3 of wood per annum • Uncoated fine paper produced at paper mills in Austria, Russia and Slovakia	Net segment assets Capital expenditure Segment revenue Underlying operating profit ROCE Employees No. of production sites	€1,512 million €151 million €1,516 million €179 million 16.9% 8,900 4	• No. 1 in office paper and UFP in Europe
	• A network of 4 mills producing virgin and recycled containerboard and 15 corrugated packaging plants, mainly in central and eastern Europe	Net segment assets Capital expenditure Segment revenue Underlying operating profit ROCE Employees No. of production sites	€898 million €87 million €1,235 million €119 million 14.9% 5,600 17	• No. 2 in virgin containerboard in Europe • No. 3 in corrugated packaging in central and south east Europe
	• Kraft paper converted into industrial and consumer bags, at 6 mills and 58 converting plants mainly in emerging and western Europe • Leading European producer of release liner, extrusion coating products and consumer bags	Net segment assets Capital expenditure Segment revenue Underlying operating profit ROCE Employees No. of production sites	€1,333 million €92 million €2,226 million €133 million 11.8% 8,300 63	• No. 1 in kraft paper in Europe • No. 1 in industrial bags in Europe • No. 1 in commercial release liner in Europe

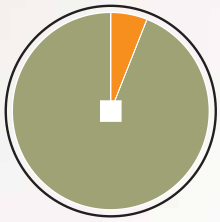
Divisional overview continued

2010 Production

South Africa Division

- UFP: 0.3 million tonnes
- Containerboard: 0.3 million tonnes
- Pulp: 0.7 million tonnes
- Woodchips: 0.3 million bone-dry tonnes

Contribution to Group revenue

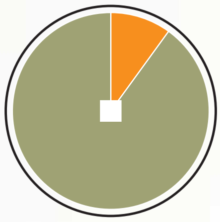


South Africa Division 6%

Mondi Packaging South Africa

- Containerboard: 0.4 million tonnes
- Corrugated: 0.4 billion m²

Contribution to Group revenue

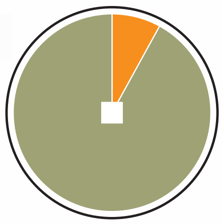


MPSA 10%

Newsprint

- Newsprint: 0.3 million tonnes

Contribution to Group revenue



Newsprint 8%

Key products & operations	Key statistics	Market positions
• 264,000 hectares of plantations in KwaZulu-Natal and Mpumalanga provinces • Hard- and soft-wood pulp and virgin containerboard produced at the Richards Bay pulp mill in KwaZulu-Natal • Uncoated fine paper produced at the Merebank paper mill in Durban, KwaZulu-Natal • 57% of segment revenue to export markets in 2010	Net segment assets €953 million Capital expenditure €28 million Segment revenue €580 million Underlying operating profit €64 million ROCE 8.4% Employees 1,900 No. of production sites 2	• No. 1 in office paper in South Africa • No. 1 in white top kraftliner in South Africa
• 2 containerboard mills, 1 cartonboard mill and a network of 12 corrugated packaging plants in southern Africa • Recovered fibre collection and processing • A broad spectrum of rigid plastic packaging	Net segment assets €393 million Capital expenditure €28 million Segment revenue €647 million Underlying operating profit €51 million ROCE 14.5% Employees 3,800 No. of production sites 21	• No. 1 in corrugated packaging in South Africa • No. 1 in cartonboard in South Africa • No. 3 in rigid plastics in South Africa
• 48,000 hectares of plantations in KwaZulu-Natal province • Joint venture production of newsprint and telephone directory paper	Net segment assets €106 million Capital expenditure €7 million Segment revenue €492 million Underlying operating loss €4 million Employees 200 No. of production sites 2	• No. 1 in newsprint in South Africa

Chairmen's statement

David Williams – Joint chairman

Cyril Ramaphosa – Joint chairman

Dear shareholder

We are pleased to report very good results set against a backdrop of improved market conditions.

We increased volumes and achieved strong prices amid sector-wide demand growth. The Group's streamlined operating base, focused on high-quality assets, low-cost production and high-growth emerging markets, performed very well throughout the year. We have continued to ensure that the Group delivers positive outcomes for our shareholders.

Operating and financial performance

Group revenue improved significantly by 18% to €6.2 billion (2009: €5.3 billion), with underlying operating profit following suit with a 73% increase to €509 million (2009: €294 million). The Europe & International Division's underlying operating profit rose 72% to €431 million (2009: €251 million). While the South Africa Division delivered an improved performance with underlying operating profit of €64 million (2009: €32 million), results were unfavourably impacted by the strength of the South African rand.

We completed the largest capital project ever embarked on by the Mondi Group in Syktyvkar, Russia during 2010 on time and within the revised budget of €545 million. We are also delighted that the €330 million Świecie investment completed in Poland in 2009 is running at over 85% capacity. Both projects were extremely well managed and the Syktyvkar project in particular is a considerable achievement given the challenges of the remote location and harsh climatic conditions. The focus for 2011 will be to ensure that the substantial investment made in these two projects delivers the expected returns.

The drive towards improved efficiency across all operations continues unabated and we made further progress with the Group's restructuring programme, which continues to orientate the Group towards sustained low-cost production and strong markets.

A more detailed review of the Group's operating and financial performance is set out in the chief executive's review, the chief financial officer's review and the business review on pages 18, 22 and 26 respectively.

Integrating sustainability across the business

At Mondi we recognise that we have a broader role in society – as a creator of wealth, as a fair and safe employer and as a responsible corporate entity. Sustainability is an integral part of the way our Group works. Our products are inherently sustainable, based on natural fibres from renewable sources, and are highly recyclable.

The global move towards an integrated approach to reporting, linking business and sustainability performance to provide a balanced perspective of the year's performance to shareholders, is in line with our plans and the 2011 annual report will reflect this. In addition to the environmental, social and governance issues addressed in this report, we refer shareholders to the Sustainable Development Report (available online at www.mondigroup.com/sustainability) and to the summary review on pages 34 to 43.

Safety remains paramount across the Group. Following 2009's success in delivering zero fatalities, we deeply regret that two people were fatally injured during the year, both in South Africa. The Group's policy of 'zero harm' remains our target and a thorough investigation was undertaken after each incident to ensure that we continue to refine the safety measures, including training programmes, necessary to keep all our employees and contractors safe. Safety is a key item on the agenda at every DLC Board meeting and we have tasked management with finding new ways to further entrench safe behaviour throughout the business. A number of operations have been very successful in their pursuit of zero harm, with nine out of our 21 mills and forest areas reporting more than a million LTI (lost-time injury)-free hours.

During the year under review, we recorded a number of milestones and achievements. Most notable has been the achievement of almost all the five year sustainability commitments identified by the Group in 2005, with stretching, measurable targets. We congratulate our management and employees on this. A review of our performance against commitments can be found in the Sustainable Development Report at www.mondigroup.com/sustainability. Our next key milestone is the 2015 sustainability commitments, which are in the process of being finalised and will be reported on in next year's annual report.

We are pleased to continue working at both a strategic and an operational level with the World Business Council for Sustainable Development (WBCSD), WWF, The Forest Dialogue, the Forest Stewardship Council (FSC™), and many other NGOs and associations, to further their and our endeavours. As a Group, we are supportive of the WBCSD's Vision 2050 of a world well on the way to sustainability by 2050.

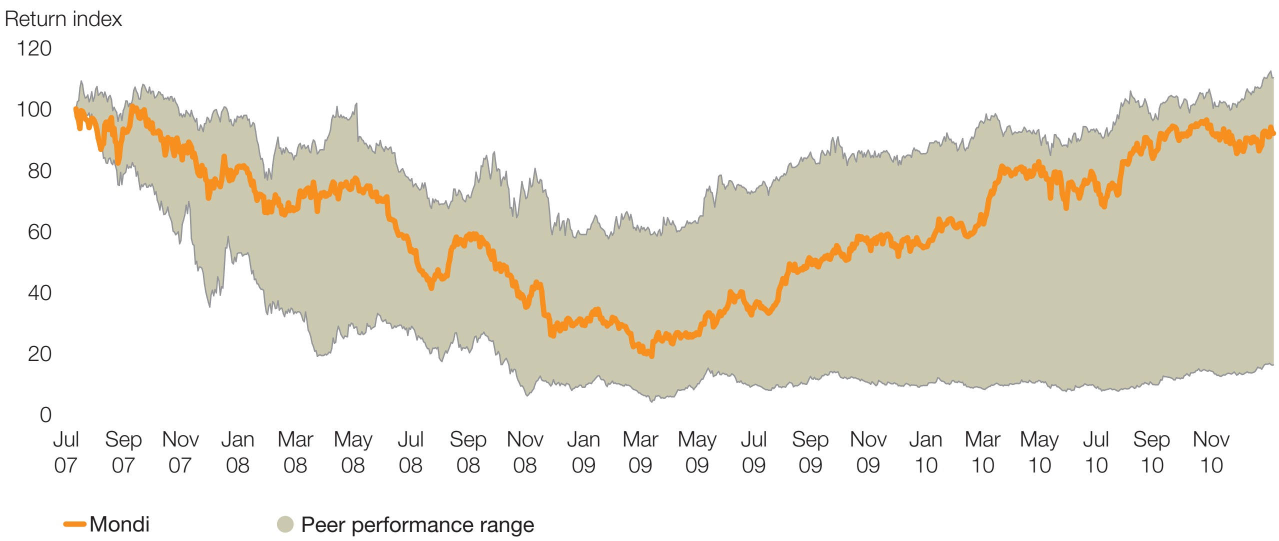
We are proud to be admitted once again to the Socially Responsible Investment (SRI) index of the Johannesburg Stock Exchange (JSE) and the FTSE4Good UK, FTSE4Good Europe and FTSE4Good Global indices of the London Stock Exchange (LSE). In addition, Mondi's sustainability efforts have been recognised in 2010 with Mondi being nominated as the best performer in the basic materials sector of the Forest Footprint Disclosure Project (FFD) and rated as the leading company in the new WWF voluntary rating tool of fine paper companies' global ecological footprint. Mondi has also been recognised by the Carbon Disclosure Project (CDP), an independent not-for-profit organisation developed on behalf of global investors, as a leader in climate change disclosure and performance.

Mondi's Terra Bag – the world's first certified biodegradable industrial bag

Our modernised Syktyvkar mill in Russia is a significant contributor to the local economy

Growing shareholder value

TSR and peer performance to 31 December 2010



The share price performance for the year under review has been extremely pleasing and reflects the market's recognition of the success of Mondi's strategic direction and strong operating performance, together with the economic recovery experienced across much of our global footprint. The Mondi Limited shares on the JSE improved some 28% over the 2010 financial year with the Mondi plc shares listed on the LSE rising some 53% on the prior year close.

The Board's aim is to offer shareholders long-term dividend growth within a targeted dividend cover range of two to three times over the cycle. Given the strong financial performance, good cash generation and the Boards' stated desire to increase distributions to shareholders, we are pleased to recommend a significant increase in the final dividend. The boards of Mondi Limited and Mondi plc have recommended a final dividend of 16.5 euro cents per share (2009: 7.0 euro cents per share), payable on 12 May 2011 to shareholders on the register at 15 April 2011. Together with the interim dividend of 3.5 euro cents per share, paid on 14 September 2010, this amounts to a total dividend for the year of 20.0 euro cents per share. In 2009, the total dividend for the year was 9.5 euro cents per share. To shareholders on the South African registers of Mondi Limited and Mondi plc, an equivalent dividend of 33.35878 South African rand cents per share was paid on 14 September 2010 and, together with a final dividend of 161.32545 South African rand cents per share payable on 12 May 2011, the total dividend amounts to 194.68423 South African rand cents per share.

Acknowledgement

The 2010 financial year has been one of vastly improved performance from both a financial and operational perspective, and this is in no small part thanks to the continued dedication of Mondi's 29,000 employees across the globe. We acknowledge the ongoing contribution of the Boards, the executive leadership and all employees in the roles they play to ensure a sustained and bright future for the Group.

Strategy and outlook

In conclusion, the Mondi Group maintained its strategic course in the 2010 financial year and the effectiveness of this strategy, as evidenced in the robust performance of the past year, places us in a strong position as we enter 2011. With the completion of the major European projects in 2010 we should see increased cash flow generation in the year. We plan to use this to ensure our asset base remains appropriately invested, our debt levels are such that we maintain investment grade credit metrics, and returns to shareholders are increased in line with our dividend policy. The Group's product portfolio will continue to be carefully assessed to ensure maximum value is achieved across all our operating regions, taking opportunities to strengthen these as appropriate.

The world economy continues to steady itself in the wake of the 2008 crisis, albeit with some degree of uncertainty, and a close watch will be maintained over pricing levels and input costs as we seek to further improve the Group's performance in the year ahead.

Cyril Ramaphosa
Joint chairman

David Williams
Joint chairman

Chief executive's review

David Hathorn – CEO

The 2010 financial year saw a much improved financial performance from the Mondi Group. After the turmoil of 2008 and early 2009 created by the global financial crisis, the recovery we noted in late 2009 continued into 2010. Our strong performance confirms the validity of our strategy and, coupled with the completion of the substantial investments made over the past years, means that we are now in a period where shareholders should on average enjoy increased levels of free cash generation. We will continue to regularly assess our product portfolio to ensure maximum value is achieved and while growth clearly remains an option, we will continue to be disciplined as regards acquisitions and expansionary capital expenditure, and will use this increased free cash flow to reduce debt and increase distributions to shareholders.

Turning to the industry fundamentals, demand growth over the past 18 months has been very encouraging, with volumes back at satisfactory levels. Further demand growth is expected, albeit at more modest rates. Recent industry capacity adjustments have also resulted in generally stronger fundamentals, which together with the continued demand recovery and low stock levels, has resulted in a positive pricing environment. Looking forward, it is important that the industry shows constraint by not investing in unnecessary additional capacity and continues to rationalise surplus capacity to ensure that supply is in line with demand, particularly in those grades that are in secular decline in the mature western markets. Mondi, however, has limited exposure to grades that are experiencing this decline, with our strategic portfolio being weighted towards higher-growth economies.

Financial results

The Group's underlying operating profit improved consistently through the year and the year end figure of €509 million was 73% up on the prior year. The European Corrugated business achieved a significant improvement in underlying operating profit to €119 million, 417% up on the prior year, while underlying operating profit for UFP and Bags & Coatings was up 23% and 62%, respectively. Profits in South Africa doubled compared with 2009, with the improvements to the South Africa Division's underlying operating profit largely due to restructuring, cost savings and increased pulp exports. The South African packaging operations again delivered a very pleasing performance (operating profit up 42%) with ongoing tight cost control, stable prices and increased volumes.

Mondi uses average return on capital employed (ROCE) as a key measurement of performance and following the disappointing return achieved in 2009, the 2010 return of 12.3% bears testament to the significant achievements driven by management across the Group over the course of the year. It is worth noting that our Europe & International operations achieved a very pleasing ROCE of 14.5% and while the returns in the South Africa Division remain unsatisfactory, the South African packaging returns are encouraging.

We have also benefited from our access to raw materials and the backward integration of our larger mills with average pulp prices up during the period by around 41% for softwood and 50% for hardwood in US dollar terms.

Order inflows and sales volumes continued to improve and price increases were achieved across all key paper grades, with benchmark UFP cut-size office paper prices increasing by over 11% from 31 December 2009 levels. We announced further price increases in the second half, supported by continued input cost pressures particularly for the non-integrated producers.

In the Corrugated business, benchmark kraftliner prices and white top containerboard prices were up by 45% and 20% respectively, a vast improvement compared to 2009. Mondi also benefited from the first full year of production from our new paper machine in Poland, particularly as this volume replaced higher-cost capacity that we exited over the past two years.

For Bags & Coatings, prices are back to the levels they were at before the economic crisis. However, in the western European Bags business, ongoing supply rationalisation is needed. The Coatings business continues to enjoy good demand growth across Europe.

Currency movements had a mixed impact on the Group's results. The stronger rand eroded export margins in South Africa, whilst European pricing benefited from the weaker euro against the US dollar and improved supply-demand fundamentals. Other emerging European currencies strengthened against the euro placing some pressure on the export-focussed operations in Poland and the Czech Republic.

Underlying earnings per share was 47.0 euro cents, an increase of 151% on the prior year. A final dividend of 16.5 euro cents has been recommended, 136% more than the final 2009 dividend.

Pleasingly the Group experienced a strong cash inflow despite €160 million of capital expenditure on the major expansion projects. As a result net debt reduced from €1,517 million to €1,364 million.

During 2010, Mondi successfully launched a €500 million, seven-year Eurobond, further strengthening the Group's already robust financial position as evidenced by the long term corporate credit ratings received of Baa3 from Moody's Investor Service and BB+ from Standard & Poor's, both with a stable outlook. The funds have been used to reduce existing short and medium term debt.

Sustained delivery on Group strategy

Mondi's robust strategy continues to deliver results and we will take opportunities to strengthen our position as appropriate as we:

- build on leading positions in packaging and UFP, particularly in high-growth emerging markets;
- maintain our position as a low-cost, high-quality producer by selectively investing in production capacity in lower-cost regions and exploiting benefits of upstream integration (including forestry); and
- focus on continuous productivity improvement and cost reduction, delivered through business excellence programmes and rigorous asset management.

Leading market positions

Our focus continues to be on achieving the right product mix and geographic focus and thereby increasing the quality of our earnings. In order to increase our exposure to the faster growing emerging markets and reduce the risks associated with some declining western European markets, we have completed a number of restructuring programmes. As a result Mondi is well positioned with good exposure to high-growth emerging markets such as eastern Europe, Russia and South Africa, with 73% of the Group's net operating assets and 55% of revenue by destination based in these geographical areas.

As part of Mondi's ongoing focus on leading market positions, the restructuring of the European Corrugated business was concluded during the first half of the year with the sale of the UK box plants and the recycled containerboard mill in Austria. The business can now focus on its core central and south eastern European markets, with leading market positions in the high-growth markets of Poland and Turkey. The containerboard mills in Poland, Germany and Turkey provide the Group with a competitive paper asset base serving the Group's integrated converting network in these regions.

Our leading position in high-growth emerging markets was further enhanced by the successful completion of the last of our two major capital projects, with the modernisation of the Syktyvkar mill in Russia, bringing an additional 50,000 tonnes of office paper and 63,000 tonnes of containerboard into this high-growth market. The construction of the new 470,000 tonne lightweight recycled containerboard paper machine at Świecie in Poland was completed in 2009.

Chief executive's review continued

Our bias towards emerging markets is in line with our vision of focusing on low-cost, high-growth regions and on businesses offering leading market positions and operational synergies with existing businesses. While our strategy clearly focuses on emerging markets, Mondi enjoys a uniquely strong market position in the Bags & Coatings segment in both eastern and western Europe, where Coatings continues to enjoy very attractive growth rates. We will therefore continue to support our market position in Bags & Coatings with our existing western European assets. In our European corrugated business, our only remaining western European assets are in Austria and Germany which are integral to our Polish corrugated operations. In our UFP business, the only remaining western European asset is the Neusiedler mill in Austria, which makes speciality products that achieve higher selling prices to compensate for the higher costs. The result is that while our Bags business and the western European UFP business are negatively impacted by the secular demand decline in these grades in western Europe, all of the Group's other businesses are expected to continue enjoying good levels of demand growth for the foreseeable future.

High-quality, low-cost asset base

Over the past year, Mondi has continued to develop its high-quality, low-cost asset base and the €545 million modernisation project at the Syktyvkar mill in Russia not only boosts our leading market position in this key region but the mill is now a well-invested highly cost-effective asset. The project incorporated the construction of a new wood yard, the rebuild of the softwood and hardwood pulp production lines and the white liquor plant, a new lime kiln and recovery boiler, a new turbo-generator and evaporation plant and the rebuild of the office paper and containerboard machines. This investment enables Mondi to increase product quality and output for UFP and containerboard. Most importantly the mill is now fully self-sufficient in pulp, which is where the major cost advantage lies.

The European Corrugated business benefited from the well-operating new recycled containerboard machine at Świecie, restructuring and cost reduction initiatives and improved product prices and volumes. The new machine produced 410,580 tonnes of paper in 2010 and should make good progress towards its capacity output of 470,000 tonnes during 2011.

To further refine our asset base in the Bags & Coatings business, we have closed two of the plants we acquired from the Smurfit Kappa Group (SKG) in Spain and Italy, and negotiations to close a further two plants in France have been completed. Encouragingly, very good progress continues to be made in Coatings with a number of the investments made in recent years now operating well. The Coatings business now enjoys good, and in many cases leading, market shares in its key markets and delivered a ROCE in the region of 14% during 2010.

The sale of the Europapier paper merchant business to the Heinzel Group, announced in early May 2010, was approved by the relevant competition authorities and concluded early in November. In August, agreement was reached with Hadera Paper Limited to sell down the Group's 50.1% interest in Mondi Hadera Paper Limited for a consideration of €10 million, with the Group retaining a 25% minority interest and this transaction was concluded on 31 December 2010. These disposals are in line with Mondi's stated objective of exiting non-core businesses.

Focus on performance

Cost optimisation is entrenched in Mondi's culture and management's relentless approach to cost savings did not lose momentum in 2010. Our focus on cash flow optimisation resulted in working capital remaining tightly under control within the desired range of 10-12% of turnover. Capital expenditure for the year amounted to €394 million, or 64% of depreciation. Following the decision to limit capital expenditure approvals outside of the two large projects to 40% of depreciation during the recession experienced in 2008 and 2009, as indicated at the end of 2009, we will now return to more normal levels of ongoing capital expenditure estimated at around 60-80% of depreciation.

Input costs remained high during the year, but the rapid increases in raw material costs experienced in the first half of 2010 are showing signs of slowing. Monthly average benchmark prices of pulp and recovered paper remained relatively unchanged in the second half with hardwood pulp reflecting a slight reduction in recent months. Wood prices continued to increase during the latter part of the year, although at a more moderate pace than in the first half of the year.

Following the mothballing of a 120,000 tonne UFP machine at Merebank in South Africa and the completion of the Syktyvkar modernisation, the Group is essentially balanced in respect of its pulp production and consumption.

Overall, 2010 has been an extremely successful year from an operational perspective, with significant improvements in production efficiencies across the business and full year production records being set at a number of key operations including Dynäs, Frantschach, Richards Bay, Ružomberok, Štětí, Świecie and Syktyvkar.

Our people

Safety and sustainability are critical to the Group's future and we deeply regret that two people lost their lives at our operations in the past year. Considering the vastly improved safety performance we reported in 2009, this is of key concern and we are therefore more committed than ever to our uncompromising focus on, and drive towards, a safe working environment for all our employees and contractors in 2011 and beyond.

None of Mondi's achievements would be possible without our dedicated, committed workforce. I regularly see examples of the talent and passion of our people as they work to anticipate and respond to our customers' needs, focus on sustainability issues and drive excellence in our operations. I take great pride in being part of the team of 29,000 people throughout the world who fuel the success of the Mondi Group.

Outlook

Demand growth over the past 18 months has been very encouraging, with volumes in most grades and geographic regions back at satisfactory levels. In 2011, further demand growth is expected, albeit at more modest rates. Recent industry capacity adjustments have also resulted in generally stronger fundamentals. Taken together, this has led to a positive pricing environment. The general economic recovery also brings cost pressures. We are confident that the Group's integrated low-cost position, focus on performance, and the contribution from the major investments made through the down cycle, position the business well for the future.

David Hathorn
Chief executive officer

Chief financial officer's report

Andrew King – CFO

Overview of results

The Group's underlying operating profit of €509 million was up 73% compared to 2009, reflecting a strong operational performance and significantly improved trading environment with price and volume improvements across all main products. The Europe & International Division, through its Uncoated Fine Paper, Corrugated and Bags & Coatings businesses contributed €431 million; South Africa Division, €64 million; and Mondi Packaging South Africa, €51 million. The Newsprint operating loss of €4 million was disappointing, whilst corporate costs were at similar levels to previous years.

In line with the Group's strategy, restructuring activities led to a further refinement of the Group's portfolio, with the sale of the UK corrugated businesses, Europapier merchant business and reduction of the Group's interest in Mondi Hadera to 25% from 50.1%. Furthermore, the Group acquired industrial bag plants in Spain, France and Italy and also completed the second of its two major capital projects, the Syktyvkar modernisation in Russia, thereby expanding in its core business segments.

Input costs, particularly wood, pulp and recycled fibre costs, increased by approximately 28% during the year, half of which was attributable to market price increases whilst the balance was attributable in equal proportions to increased selling volumes and adverse currency effects.

Interest paid during the year of €117 million was €46 million less than the previous year, primarily due to the reduced net debt position and lower interest rates in Russia and South Africa. Net finance charges however were 3% higher than the prior year, mainly as a result of lower interest capitalised following the completion of the two major capital projects in Poland and Russia.

The tax charge for the year was €87 million, representing an effective tax rate before special items of 24%.

Underlying earnings per share of 47.0 euro cents increased by 151% over the prior year. Basic earnings per share of 44.1 euro cents increased from a loss of 6.5 euro cents in 2009.

As expected, and in line with the increased turnover, working capital increased during the year with a net cash outflow of €121 million. The net working capital to turnover ratio was 10.6%. On a continuing business basis, excluding the results of Europapier and Mondi Hadera, the ratio increased to 11.5% from 10.0% in the previous year, which remains within the Group's target range of between 10% and 12%.

Strong cash generation and the proceeds from the businesses disposed of were applied to reduce net debt to €1,364 million at year end, from €1,517 million at 31 December 2009.

The Group is proposing to pay a final dividend of 16.5 euro cents per share giving a total dividend of 20.0 euro cents for the year, an increase of 111% compared to 2009.

Accounting policies

There were no significant changes to the accounting policies during the year. The Group adopted the revised standard on Business Combinations, full details of which is provided in the annual financial statements.

The recently issued exposure draft on leases, which will require the Group to capitalise all leases, is expected to have a significant impact on the future presentation of the Group's results. This will result in an increase in assets, representing the benefit from the lease, and liabilities, representing the discounted future payment commitments, with a corresponding increase in depreciation and finance charges. These charges will be offset by the absence of operating lease expenses and thus have no significant impact on the underlying performance of the Group.

Reconciliation of underlying profit to reported profit for the year

€ million	2010	2009
Underlying profit	301	124
Operating special items	3	(128)
Non-operating special items	(25)	(5)
Tax effect of special items	6	6
Profit/(loss) for the year	285	(3)

Special items

Special items for the year include the following:
- mothballing of a paper machine and related restructuring provisions in Merebank, South Africa;
- reversal of previously recognised closure provisions no longer required following the sale of the Szolnok site in Hungary;
- reversal of impairment and related closure provisions of the Stambolijski mill following its restart in June 2010;
- partial impairment of underperforming kraft paper assets in Lohja and Ružomberok;
- impairment of Newsprint assets in South Africa;
- costs of restructuring and write-off of obsolete assets in Syktyvkar following completion of the modernisation project;
- gain on acquisition of the industrial bags plants in western Europe, largely offset by restructuring costs following the announcements to close certain of these plants;
- loss on sale of the corrugated packaging plants in the UK;
- profit on the sale of forestry assets in South Africa; and
- write-down of assets and loss on disposal of Europapier.

Further detail is provided in note 5 of the annual financial statements.

Input costs

Input costs increased significantly during the year, although the rate of increase slowed in the second half of the year. Wood, recovered fibre and pulp comprise approximately one third of the input costs of the Group. Wood prices increased by approximately 30% over the year. Average benchmark prices for recovered fibre increased by 111%, when compared to the average price of 2009. The increases of 50% and 41% for hardwood pulp and softwood pulp, respectively, did not have a significant impact on the Group as it is largely balanced in respect of pulp production and consumption.

These increases in input costs have, to a large extent, been passed on to customers through selling price increases during the course of the year.

Energy and chemical costs have increased across the business with particular pressure on electricity prices in South Africa, which have almost doubled over the last three years. These increases were partially offset in Europe by higher green energy sales and disposal of emission credits in the Corrugated and Bags & Coatings businesses.

Currencies

Most of the emerging market currencies to which the Group is exposed as an exporter have strengthened against the euro during the year. Whilst these exchange rates are relatively volatile, on average, the South African rand has strengthened by 17%, the Russian rouble by 9%, the Turkish lira by 8%, the Polish zloty by 8% and the Czech koruna by around 4%. Together with the generally higher inflation expectations in these countries, this places increasing pressure on the Group's cost base. Conversely, the general strengthening of the US dollar against the euro benefited European exports and supported pricing in Europe.

Tax

The effective tax rate before special items was 24%, compared to 32% in 2009. The main reasons for the reduction in the tax rate are improved profitability enabling the use of previously unrecognised tax losses; increased profitability in regions with lower statutory tax rates; and the benefits of tax incentives granted in certain countries in which the Group operates, notably those related to the major Polish and Russian projects.

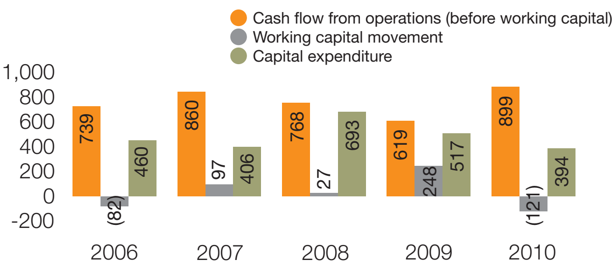
Świecie investment, Poland, delivering improving returns

Non-controlling interests

The income attributable to non-controlling interests increased significantly during the year from €30 million in 2009 to €61 million in the current year. This is primarily attributable to the significantly improved profitability of Mondi Świecie S.A. and Mondi SCP a.s. (Ružomberok).

Cash flow

Cash flow (€ million)



EBITDA of €882 million was €237 million higher than in 2009 reflecting the positive trading environment. The Group generated €778 million of cash from operations (2009: €867 million), notwithstanding the €121 million increase in working capital (€248 million reduction in 2009).

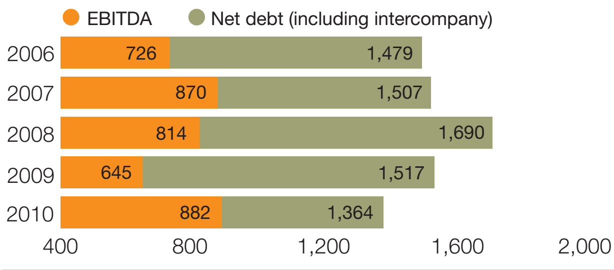
Capital expenditure of €394 million was €123 million lower than the prior year. This reflects the reduction in spend on the two major capital investments in Poland, completed towards the end of 2009, and Russia, completed in the latter half of 2010, and the Group's tight focus on new capital approvals which were severely restricted through the height of the global financial crisis in 2008 and 2009. Excluding major expansionary capital investments, the Group aims to maintain its capital expenditure at between 60% and 80% of its depreciation charge. In 2010, this ratio was 64%.

The surplus cash as well as the net cash received from the business restructuring activities was applied to reduce net debt.

Treasury and borrowings

Net debt at year end was €1,364 million, €153 million lower than the prior year. This reduction was achieved through strong operational cashflows offsetting the increase in working capital in line with increased revenues, capital expenditure to complete the projects in Poland and Russia and a €78 million negative currency impact. Gearing as at 31 December 2010 was 29.7% (2009: 35.1%), and the net debt to trailing 12 months EBITDA ratio was 1.5 (2009: 2.4).

EBITDA and net debt (€ million)



The Group successfully obtained public credit ratings from Moody's (Baa3) and Standard & Poor's (BB+) in March 2010. The Moody's rating is investment grade. The ratings have remained on stable outlook since they were issued. Following the publication of the ratings, Mondi Finance plc established its Euro Medium Term Note (EMTN) programme under which it successfully issued its inaugural €500 million, seven year 5.75% public Eurobond at the end of March 2010. Under the EMTN programme Mondi is able to issue further Eurobonds subject to market conditions, thus diversifying and strengthening the Group's funding structure. The proceeds of the issuance were used to repay debt drawn under existing bank facilities.

Financing costs before interest capitalised reduced from €185 million to €168 million mainly as a result of lower interest rates in Russia and South Africa during 2010, offset in part by the interest on the Eurobond being higher than that on the borrowings it was used to refinance.

Group liquidity is provided through the €500 million Eurobond and a range of committed bank facilities amounting to €2.4 billion. With €1.5 billion of these facilities undrawn, the Group has significant liquidity to meet its short-term funding requirements.

The Group is actively reviewing refinancing options for the €1.55 billion syndicated revolving credit facility, which matures in June 2012. As at 31 December 2010, €122 million of this facility was drawn. Other key Group facilities include a €160 million export credit agency loan in Russia with an amortising repayment until 2020, a PLN474 million (€119 million) European Investment Bank facility in Poland with an amortising repayment until 2017, as well as various committed facilities in South Africa amounting to ZAR2.7 billion (€305 million).

The average maturity of the Eurobond and committed debt facilities is 2.6 years (compared to 2.2 years at 31 December 2009). Drawn committed facilities maturing over the next 12 months amount to €397 million. To the extent they are not renewed, they can be financed out of existing undrawn committed facilities.

Financial position

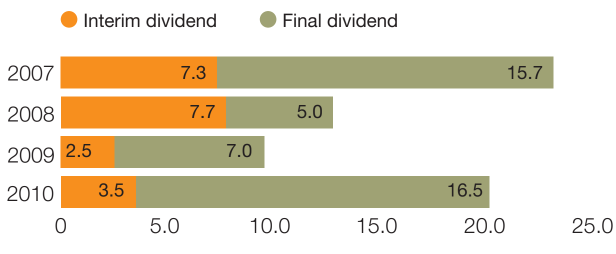
		2010	2009
Capital employed	€ million	4,588	4,341
ROCE	%	12.3	7.6
Shareholders' funds	€ million	2,763	2,399
Return on shareholders' funds	%	8.7	4.0
Net debt	€ million	1,364	1,517
Gearing (Net debt/Capital employed)	%	29.7	35.1
Net debt / EBITDA	times	1.5	2.4
Working capital	€ million	660	527

Shareholder returns

The return on capital employed, based on underlying earnings and average capital employed, of 12.3% reflects a marked improvement over the 7.6% achieved in 2009, but remains below the targeted 13% across the cycle. This improvement clearly reflects the significantly improved trading environment.

The Group aims to pay dividends based on a ratio of two to three times covered by underlying earnings per share over the operating cycle, with the aim of offering shareholders long-term dividend growth. Since the listing of the Group, the dividend cover has been well within this range and during the economic downturn of 2009, the Group maintained this target with a dividend cover of 2.0 times.

Dividends paid and proposed (€ cents per share)



The pleasing results of the current year enabled the Group to further reduce its net debt position and to propose a total dividend of 20.0 cents per share, representing a significant 111% increase in the dividend, while remaining within the targeted cover range.

Continued strong cash flow generation should enable the Group to continue to provide increasing cash returns to shareholders.

Andrew King
Chief financial officer

Business review

Strong operating performance – production records at six out of the eight largest paper mills

Europe & International Division: Uncoated Fine Paper business

€ million	2010	2009	% change
Segment revenue	1,516	1,351	12
of which inter-segment revenue	129	130	–
EBITDA	279	239	17
Underlying operating profit	179	146	23
Special items	5	(2)	
Capital expenditure	151	191	(21)
Net segment assets	1,512	1,494	1
ROCE (%)	16.9	14.5	16.6

Underlying operating profit increased by €33 million to €179 million with the integrated Syktyvkar mill continuing to generate strong results and the contribution from the Ružomberok operation showing a marked improvement, benefiting from their pulp integration and improved pricing. The non-integrated mills, despite achieving price increases, could not entirely offset the higher pulp prices, leading to margin erosion.

Benchmark uncoated fine paper (UFP) prices at 31 December 2010 increased by approximately 11% from 31 December 2009 levels. These price increases, coupled with good volume growth on the back of a recovery in demand enabled the business to increase revenue by 12% to €1,516 million. Further price increases of approximately 5% have been announced for the first quarter of 2011. The actual price increases achieved will be subject to individual negotiations with customers.

The business experienced significant input cost pressures, particularly as a result of the increased wood and pulp prices. Other cost increases were well contained through ongoing cost saving initiatives. Productivity, measured in terms of output per person, improved by approximately 11% during the year, with annual production records in both Syktyvkar and Ružomberok.

Capital expenditure for the year was €151 million, of which €108 million, related to the Syktyvkar modernisation project, completed in the second half of the year. As planned, an extended shut was taken during August and early September 2010 for the commissioning of the final phase of the project. The benefits from this project will be in the form of reduced operating costs, improved efficiencies, increased energy production and additional volumes from the rebuilt containerboard and UFP machines. The rebuilt UFP machine was already in production throughout 2010, contributing an additional 30,000 tonnes of production. At the year-end, around €35 million was left to spend on this project.

The ROCE of 16.9%, increasing from 14.5% in the previous year, reflected the positive trading environment, low cost base and strong operating performance.

Further benefits from the Syktyvkar modernisation project are expected to be realised during 2011 with the plant expected to achieve full capacity in the latter half of 2011, in accordance with the ramp-up plan.

Europe & International Division: Corrugated business

€ million	2010	2009	% change
Segment revenue	1,235	1,041	19
of which inter-segment revenue	59	36	64
EBITDA	187	87	115
Underlying operating profit	119	23	417
Special items	(15)	(55)	
Capital expenditure	87	195	(55)
Net segment assets	898	872	3
ROCE (%)	14.9	3.6	314

The substantial improvement in the underlying profit of the Corrugated business from €23 million in 2009 to €119 million in 2010 reflects improved product prices and volumes, a positive contribution from the new recycled containerboard machine at Świecie, and restructuring and cost reduction initiatives.

During the year, the business concluded its restructuring programme with the sale of the Frohnleiten mill and UK corrugated plants. Going forward, the business will focus on its core central and eastern European markets, with large production facilities in Poland, Turkey, Germany and Austria.

The 470,000 tonne recycled containerboard machine at Świecie performed well ahead of plan, with total volumes of 410,580 tonnes (2009: 108,897 tonnes). These increased volumes largely offset the reduction in volumes from the sale of Frohnleiten. Production from the new containerboard machine is expected to further increase during 2011 as it continues to ramp-up to full design capacity.

Benchmark kraftliner prices increased by 45%, recycled containerboard prices by 30% and white top containerboard prices by 20% at year end, from 31 December 2009 levels.

Further recycled containerboard price increases of €40 per tonne and white top containerboard price increases of €50 per tonne have been announced to take effect during the first quarter of 2011. Box price increases largely offset the increased paper prices, albeit with some time lag. Further box price increases will be sought in 2011. Pleasing improvements in demand and volume growth were achieved in both containerboard and corrugated packaging.

Costs of recovered fibre and wood increased significantly during the year with average benchmark recovered fibre prices more than doubling. The Polish operations were particularly impacted by the shortage of supply, reflected in a price premium for recovered fibre in this region. Recovered fibre pricing is expected to remain under pressure into 2011. Wood costs increase by approximately 30% during the year, although the rate of increase slowed during the second half of 2010. Cost improvement initiatives continued and largely offset other cost increases.

Productivity, measured by output per person, improved by almost 20% during the year, with the primary contributor being the increased production volumes from Świecie. Capital expenditure of €87 million was incurred during the year, of which €20 million related to the completion of the Świecie project and €27 million to the rebuilt containerboard plant at Syktyvkar.

The ROCE of 14.9%, compared to the prior year figure of 3.6%, reflects the improved trading environment and the positive impact of the Group's capital investment and restructuring activities.

Europe & International Division: Bags & Coatings business

€ million	2010	2009	% change
Segment revenue	2,226	1,787	25
of which inter-segment revenue	39	24	63
EBITDA	238	189	26
Underlying operating profit	133	82	62
Special items	28	(48)	
Capital expenditure	92	81	14
Net segment assets	1,333	1,222	9
ROCE (%)	11.8	7.5	57

Robust volume growth was the main contributor to the business achieving a 62% improvement in underlying operating profit to €133 million. Whilst significant price increases of around 30% were realised in kraft paper over the course of the year, more than offsetting the increases in raw material costs, increases were more muted in the downstream industrial bags business where a large portion of the sales volume is sold under fixed price contracts. Further industrial bag price increases are expected to be implemented in 2011.

Demand in the core European market has recovered from the lows of 2008 and 2009 and significant demand growth was experienced in export markets. As a consequence, the Group restarted its 80,000 tonne kraft paper mill in Stambolijski in June 2010.

In May 2010, the business acquired Smurfit Kappa's bag converting plants in Spain, France and Italy followed by a plant in Poland early in 2011. A process to integrate and rationalise the expanded plant network was initiated during the year resulting in the decision to close four of the eight plants acquired, subject to employee negotiations. Restructuring costs of €28 million associated with this acquisition are reflected in special items, offsetting a €34 million gain on acquisition, also reflected in special items.

Productivity in kraft paper increased by 12% during the year with production records set at all kraft paper facilities. A 12% improvement in productivity in the industrial bags business was also realised.

The coatings and consumer packaging business recorded an improvement in its performance, mainly due to robust volume growth and efficiency enhancements. Price increases were realised but offset by increases in input costs, particularly plastics and other chemicals.

The ROCE of the Bags & Coatings business of 11.8% compared to the ROCE of 7.5% in 2009 reflects the robust demand growth.

South Africa Division

€ million	2010	2009	% change
Segment revenue	580	478	21
of which inter-segment revenue	211	210	–
EBITDA	117	76	54
Underlying operating profit	64	32	100
Special items	(10)	(22)	
Capital expenditure	28	26	8
Net segment assets	953	840	13
ROCE (%)	8.4	4.6	83

Underlying operating profit doubled in the year to €64 million on the back of a strong recovery in selling prices, restructuring activities and a gain on revaluation of forestry assets, offset by currency headwinds and domestic cost inflation. Consequently, the ROCE of 8.4%, whilst an improvement on the 4.6% realised in 2009, is still short of targeted levels.

During the year, the decision was taken to exit the European UFP market due to poor profitability and to focus on the domestic and African markets. As a consequence, the 120,000 tonne UFP machine in Merebank was mothballed in September 2010, and a restructuring programme initiated to realign the cost base of the business, with the benefits likely to be seen in 2011.

Significant price increases for pulp and UFP were diluted by the impact of the strong South African rand. Inflationary cost pressures were mitigated by cost curtailments and restructuring activities.

Mondi Packaging South Africa

€ million	2010	2009	% change
Segment revenue	647	498	30
of which inter-segment revenue	29	25	16
EBITDA	84	62	35
Underlying operating profit	51	36	42
Special items	(1)	7	
Capital expenditure	28	17	65
Net segment assets	393	335	17
ROCE (%)	14.5	11.5	26

Underlying operating profit of €51 million was 42% up on the prior year, achieved through improved sales volumes, selling price increases in the plastics business and a continuous focus on cost containment. This yielded a ROCE of 14.5% up from 11.5%.

Demand improved during the year, largely returning to the levels experienced before the recession. Agricultural products continued to grow with a number of exporters focusing on fully packaged products. Industrial sector demand remains subdued.

While paper and related packaging prices remained largely unchanged during the year, above inflationary labour and electricity price increases drove costs up. Only through rigorous cost management was the business able to curtail the impact of these increased costs and deliver improved profitability. Electricity price increases in South Africa remain a concern for the foreseeable future.

The business continues to focus on cash flow generation, reducing working capital levels and maintaining a focus on increasing profitability.

Newsprint

€ million	2010	2009	% change
Segment revenue	492	528	(7)
of which inter-segment revenue	1	1	–
EBITDA	10	28	(64)
Underlying operating (loss)/profit	(4)	12	
Special items	(29)	(12)	
Capital expenditure	7	7	–
Net segment assets	106	194	(45)
ROCE (%)	(2.8)	6.0	

Europapier business included in 2009 information and in 2010 information until the date of disposal of 4 November 2010.

The Europapier paper merchant business was sold with effect from the beginning of November 2010. This business generated an operating profit of €6 million during the 10 months ended October 2010 largely through improved volumes and good cost containment.

The returns of the remaining Newsprint businesses were extremely disappointing with the segment reflecting an underlying operating loss.

The Aylesford Newsprint joint venture was severely impacted by declining selling prices on its annual contract business whilst recycled paper input costs increased substantially. The business also incurred additional waste disposal costs. Significant price increases are required to restore the business to profitability. Price increases in excess of 20% have been negotiated on the annual contract business to take effect in the first quarter of 2011.

The Mondi Shanduka Newsprint joint venture in South Africa suffered from slightly reduced demand and selling prices remained under pressure. The strength of the South African rand reduced returns from export sales and put pressure on domestic pricing. Increasing electricity prices, up 97% over the previous three years, with a further 65% expected over the next two years, are severely hampering the profitability of this business and an asset impairment was recognised in the year.

Risk management and internal control

Low-cost, integrated mills delivering value

The DLC executive committee, mandated by the Boards, has established a Group-wide system of internal control to manage Group risks. This system, which complies with corporate governance codes in South Africa and the UK, supports the Boards in discharging their responsibility for ensuring that the wide range of risks associated with Mondi's diverse international operations is effectively managed.

Risk management

The Boards' risk management framework addresses all significant strategic, financial, operational and compliance-related risks which could undermine the Group's ability to achieve its business objectives. The risk management framework is designed to be flexible to ensure that it remains relevant at all levels of the business given the diversity of the Group's locations, markets and production processes.

Clear accountability for risk management in the day-to-day activities of the Group is a key performance criterion for the Group's line managers, who are provided with appropriate support through Group policies and procedures. The requisite risk and control capability is assured through board challenge and appropriate management selection and skills development. Continuous monitoring of risk and control processes across all key risk areas provides the basis for regular reports to management, the DLC executive committee and the Boards.

Principal risks and uncertainties

It is in the nature of Mondi's business that the Group is exposed to risks and uncertainties which may have an impact on future performance and financial results, as well as on its ability to meet certain social and environmental objectives.

On an annual basis, the DLC executive committee and Boards conduct a formal systematic review of the most significant risks and uncertainties, determined by applying a Group wide bottom up review, and the Group's responses to those risks. These risks are assessed against pre-determined risk tolerance limits, established by the Boards, and reviewed on an annual basis.

The Group believes that it has effective systems and controls in place to manage the key risks identified below within the risk tolerance levels established by the Boards.

Principal risk	Context	Mitigation
Mondi operates in a highly competitive environment	The markets for paper and packaging products are highly competitive. Prices of Mondi's key products have experienced substantial fluctuations in the past. Furthermore, product substitution and declining demand in certain markets, coupled with new capacity being introduced may have an impact on market prices. A downturn in trading conditions in the future may have an impact on the carrying value of goodwill and tangible assets and may result in further restructuring activities.	Mondi is flexible and responsive to changing market and operating conditions and the Group's geographical and product diversification provide some measure of protection.
Input costs are subject to significant fluctuations	Materials, energy and consumables used by Mondi include significant amounts of wood, pulp, recovered fibre, packaging papers and chemicals. Increases in the costs of any of these raw materials, or any difficulties in procuring wood or recovered fibre in certain countries, could have an adverse effect on Mondi's business, operational performance or financial position.	The Group's focus on operational performance, relatively high levels of integration and access to its own virgin fibre in Russia and South Africa, serve to mitigate these risks.
	Fifty percent of the South African forestry acreage is subject to land claims.	The continued acceptance of the Mondi settlement model as the industry standard by the South African government provides some predictability for future land claim settlements.
Foreign currency exposure and exchange rate volatility	The location of some of the Group's significant operations in emerging markets results in foreign currency exposure. Adverse currency movements and high degrees of volatility may impact on the financial performance and position of the Group. The most significant emerging market currency exposures are to the South African rand, Russian rouble, Czech koruna, Polish zloty and Turkish lira.	The Group's policy is to hedge balance sheet exposures against short-term currency volatility.
Cost and availability of supply of electricity in South Africa may adversely impact operations	South Africa continues to experience increases in the cost of electricity well above inflation. In 2010, the price of electricity increased by in excess of 25% and similar increases are forecast for the next three years. Electricity demand is expected to continue to outstrip supply until new generation capacity is brought on stream, which is unlikely to be before 2013.	Mondi continues to monitor electricity consumption and has invested in projects to increase its own generation capacity and reduce its dependence on the national energy provider.
Significant capital investments including acquisitions carry project risk	The business is capital intensive and therefore requires ongoing capital investment to expand or upgrade existing facilities and to develop new facilities. Projects that require significant capital expenditure carry risks including: failure to complete a project within the required timetable and/or within budget; failure of a project to perform according to prescribed operating specifications; and significant, unforeseen changes in raw material costs or inability to sell the envisaged volumes or achieve envisaged price levels.	The successful completion of the Group's two most significant capital investment programmes in Poland and Russia has reduced the potential impact of this risk. Larger capital projects are subject to specific approval by the Boards and regular monitoring and reporting. Skilled and experienced teams are assigned to large capital projects under the oversight of the Group technical director.
Investments in certain countries may be adversely affected by political, economic and legal developments in those countries	The Group operates in a number of countries where the political, economic and legal systems are less predictable than in countries with more developed institutional structures. Significant changes in the political, economic or legal landscape in such countries may have a material effect on the Group's operations in those countries.	The Group has invested in a number of countries thereby diversifying its exposure to any single jurisdiction. The Group's diversified management structure ensures that business managers are able to closely monitor and adapt to changes in the environment in which they operate.

Risk management and internal control

continued

Mondi's goal is zero harm

Internal control

The Boards are responsible for establishing and maintaining an effective system of internal controls. This system of internal control, embedded in all key operations, is designed to provide reasonable rather than absolute assurance that the Group's business objectives will be achieved within risk tolerance levels defined by the Boards. Regular management reporting provides a balanced assessment of key risks and controls and is an important component of the Boards' assurance. In addition, certain DLC committees focus on specific risks such as safety, and provide relevant assurance to the Boards.

The finance heads of the business units provide six-monthly confirmation that financial and accounting control frameworks have operated satisfactorily. The Boards also receive assurance from the DLC audit committee, which derives its information in part from regular internal and external audit reports of the Group's risk and internal controls. Actions are taken to correct internal control deficiencies as they are identified.

The Group's internal audit function is responsible for providing independent assurance to the DLC executive committee, the DLC audit committee and the Boards on the effectiveness of the Group's risk management process and for evaluating the internal control environment to ensure controls are adequately designed and are operating efficiently and effectively.

Key elements of the Group's system of internal control are:

- a clearly-defined organisation structure with established and reasonable division of responsibilities;
- a simple and focused business strategy, restricting potential risk exposure;
- Group financial, business conduct, operating and administrative policies and procedures which incorporate statements of required behaviour;
- a continuous review of operating performance;
- a comprehensive reporting system, including monthly results, annual budgets and periodic forecasts, monitored by the Boards;
- approval by the Boards of all major investments, with proposals being subject to rigorous strategic and commercial examination;

- a centrally coordinated internal audit programme, using internal and external resources to support the Boards in ensuring a sound control environment;
- completion by business unit management of a six-monthly internal control assessment, confirming compliance with Group policies and procedures, detailing controls in operation and listing any weaknesses;
- assurance activities covering the key business risks summarised and reported annually to the Boards, the DLC audit committee or, where appropriate, the DLC sustainable development committee; and
- annual risk-profiling by local businesses and the Group to identify, monitor and manage significant risks, with the results discussed at business reviews and internal control, audit and risk meetings.

Accountability and audit

The Boards are required to present a balanced and understandable assessment of the Group's financial position and prospects, which are provided in the joint chairmen's statement, chief executive's review, chief financial officer's report and business review. The responsibilities of the directors and external auditors are set out on pages 70 to 73.

Whistle-blowing programme

The Group has a whistle-blowing programme called 'Speakout'. The programme, monitored by the DLC audit committee, enables employees, customers, suppliers, managers or other stakeholders, on a confidential basis, to raise concerns about conduct which is considered to be contrary to Mondi's values. It makes communication channels available to any person in the world who has information about unethical practice in the Group's operations. During 2010 reports were received covering a number of areas. Reports were kept strictly confidential and referred to appropriate line managers or other more senior personnel for resolution.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the financial statements on pages 74 to 145. In addition, notes 36 and 37 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

Mondi's geographical spread, product diversity and large customer base mitigate potential risks of customer or supplier liquidity issues. Proactive initiatives by management in rationalising the business through cost-cutting, asset closure and divestitures have consolidated the Group's leading cost position in its chosen markets. Working capital levels and capital expenditure programmes are strictly monitored and controlled.

The Group meets its funding requirements from a variety of sources including the Eurobond, the syndicated five-year revolving credit facility expiring in June 2012 and various facilities in the larger operations in Russia, Poland and South Africa. The availability of some of these facilities is dependent on the Group meeting certain financial covenants all of which have been complied with. Mondi had €1.5 billion of undrawn committed debt facilities as at 31 December 2010 which should provide sufficient liquidity for Mondi in the medium term.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate well within the level of its current facilities and related covenants.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Sustainable development review

Mondi actively supports the preservation of High Conservation Value (HCV) areas

Sustainable development is integral to our business. We aim to create solutions for our customers' success, delivering exceptional value in a sustainable way. As such, we recognise that we need to integrate sound principles governing safety, business conduct, social, environmental and economic activities into our business practices and decision-making.

Four key objectives underpin our sustainability vision:

- producing sought-after products in a responsible manner;
- securing continued access to raw materials in a resource-constrained world;
- attracting and retaining talented people; and
- maintaining our licence to operate within our host communities.

This is a brief review of our approach to sustainability and the most material issues facing the Group. We publish more detailed information in the sustainable development section of our website at www.mondigroup.com/sustainability and in our printed Sustainable Development Review. Our printed and online reports have been developed in accordance with the Global Reporting Initiative's (GRI) G3 guidelines, with Mondi declaring a B+ level of reporting. The compliance of these reports with the GRI G3 guidelines' application level B+ requirements has been assured by external auditor, ERM. ERM's assurance statement can be found at www.mondigroup.com/sd_assurance_report. The reports have also been reviewed by GRI.

While this report is for the 2010 financial year, we also report on our progress against our five-year sustainable development commitments, given that 2010 is the end of our five-year commitment period. As a signatory to the UN Global Compact, we also report in compliance with its requirements on an annual basis and our latest Communication on Progress (COP) may be found on our website.

Managing sustainability

Accountability for our sustainable development policies, standards and requirements as well as our commitments and actions is provided by the DLC sustainable development committee, DLC executive committee, the sustainable development leadership panel and five global specialist network groups. Our sustainable development policy outlines our overall strategy and is supported by our seven sector policies, which deal with: sustainable forestry; environmental performance; climate change mitigation; product stewardship integration; corporate citizenship responsibilities; global employment standards; and protecting the safety and occupational health of our employees and contractors.

Our Sustainable Development Management System (SDMS) provides a robust and comprehensive mechanism for ensuring effective sustainability governance and implementing our sustainable development sector policies. The SDMS is implemented to different degrees across the Group, depending on the nature and level of risks faced in each of our operations. It also sets out the ways in which sustainable development risks are managed within the Group. Our sustainable development risk register is reviewed and updated annually to ensure that action plans are in place to mitigate and control all risks with a high impact potential and likelihood.

In 2010, we reviewed our sustainable development risks in terms of the key impacts that we have on sustainability and on our stakeholders; and the sustainability trends, risks and opportunities that affect our long-term prospects and financial performance.

The risk table is divided into two sections. Section one highlights the key impacts that we have on sustainability and on our stakeholders. Section two focuses on the sustainability trends, risks and opportunities that affect our long-term prospects and financial performance.

KEY IMPACTS ON SUSTAINABILITY AND OUR STAKEHOLDERS

Potential risk		Mitigation and control strategies
Employee/ contractor safety and health	High inherent risk of fatality, serious injury, illness, disease and substance abuse	• Visible management commitment to 'zero harm' in the workplace – safety is a value and has the same priority as other business objectives • Up-to-date register of significant safety risks • Mandatory Group management system, standards and performance requirements • Aligned skills training for safe behaviours being based on our Nine Safety Rules to Live By • Work within externally accredited safety management systems such as OHSAS 18001
Process safety	High inherent risk of catastrophic failure of plant and equipment	• Clear standards, a regular review of our hazard analysis and an up-to-date risk register of significant process safety risks • Mandatory Group management system, standards and performance requirements including the safety manual for kraft recovery boiler plant operation • Inspections, assessments, audits, assurance reports and improvement plans • Rehearsal and drill of local emergency plans and arrangements
Combustible materials	High inherent risk of fire due to combustible inventories at operations and in forestry	• Regular review of fire risks prevention measures • Regular third-party loss prevention programme (asset value > €5 million) • Emergency preparedness and business continuity planning
Change in South African harvesting practices – mechanisation of plantation forestry	High inherent risk due to public perception of the change/loss of rural support and due to chronic ill-health of current contractor workforce	• Change from manual to mechanical harvesting in a socially responsible manner • Provision of meals for contractors (Food 4 Forests programme) • Mkhondo development programme • Mondi Zimele enterprise development programme
Land claims in South Africa	Continued inherent moderate risk of loss of fibre supply from land claims in South Africa	• Continue working constructively with Government and communities to develop claimant communities into sustainable forestry enterprises
Environmental impact from loss of containment	Moderate inherent risk due to loss of containment in pulp manufacturing	• Up-to-date register of significant environmental risks • Mandatory Group management system and standards and performance requirements that are based on recognised good industry practice • Inspections, assessments, audits, assurance reports and improvement plans • ISO 14001 certifications • Frequent review of Best Available Technique concepts and related emission level values
Public health claims in South Africa	Moderate inherent health risks owing to health effects from plant emissions on surrounding communities	• Nuisance reduction programme • Active issue management addressing specific concerns and regular communication with stakeholders • First phase of odour reduction project in Richards Bay (as a nuisance reduction measure)

RISKS AND OPPORTUNITIES FROM SUSTAINABILITY TRENDS

Unsustainable forestry practices	High inherent risk of loss of access to credible resources due to loss of certification	• Internationally credible certifications • Chain-of-Custody certifications for operations • Compliance with FSC™'s Controlled Wood Standard • Participation in international forestry dialogues
Climate change footprint	Moderate inherent risk as fossil fuel emissions reduce at a slower pace	• Reduction of specific GHG emissions by 23% against a 2004 base year • Aim to increase share of biomass in energy generation • Provision of product carbon footprint information

Sustainable development review

continued

In 2005, we established key sustainable development commitments, addressing the most significant and material sustainability issues facing the Group. For a detailed account of our performance against these commitments, see our online Sustainable Development Report at www.mondigroup.com/sustainability.

Sustainable, responsible forestry and climate change

As a significant holder and manager of land, particularly in developing countries, and as an operator in an industry that potentially has a high impact on the natural environment, we are highly cognisant of our stewardship role and our responsibility to use forestry resources in a sustainable way. This is particularly so in the context of historical and ongoing degradation of many of the world's natural ecosystems and the potentially devastating impact of climate change.

No life without forests

Forests serve as habitats for two-thirds of terrestrial animal and plant species; prevent soil erosion and water run-off; maintain the chemical balance of soil, air and water; recycle nutrients; break down pollutants; clean the air and water; are vital to watershed protection and soil formation; and play a major role in regulating our climate.

The main global concerns related to the management of forests are deforestation through illegal logging; the logging of protected or high conservation value (HCV) areas; and timber supply from controversial sources.

Although Mondi is involved in the felling of trees, we are not party to deforestation. For every tree that is felled in our plantation forests, at least one other is planted. In our natural forests, felled areas are left to regenerate naturally and poor regeneration is supplemented with plantings. Mondi is not involved in illegal logging and we have strict fibre sourcing requirements.

The sustainable development challenge for Mondi, and indeed our sector, lies in balancing growing demand for forestry goods and services with enhanced ecological, landscape and social values, and building stakeholder confidence in the sustainable forest products industry.

Mondi's approach: responsible forestry

Mondi has developed policies and practices that reflect an approach we call responsible, sustainable forestry. At the heart of our approach lies our engagement with stakeholders at a local, regional and global level, both in partnership and multi-stakeholder forums, to inform our practices and actions. We collaborate with a number of non-governmental organisations (NGOs) and participate in international forestry dialogues in pursuit of this goal.

Forests and climate change

Deforestation, which often occurs as land is cleared for other purposes, such as agriculture or urban development, and forest degradation account for a significant proportion of man-made global greenhouse gas (GHG) emissions. Forests can help counteract or moderate climate change because of their ability to absorb and store CO_2 and thus serve as 'sinks' or storehouses within the carbon cycle. The faster a tree grows, the more carbon it absorbs. This means that growing forests contribute to reducing the level of CO_2 in the atmosphere. Sustainably managed forests maintain a high level of tree growth and optimum levels of CO_2 uptake.

Ecosystems and biodiversity conservation

Not only do we have an impact on ecosystems and their regulatory (climate regulation, flood control, waste disposal) and provisioning services (fresh water, fibre, food), but we also depend on them. In line with our sustainable development commitments we recognise our responsibility to conserve natural resources and, where possible, to maintain and promote biodiversity in our forests.

Our operations and their impacts on biodiversity are monitored to minimise any negative impacts on soil and water resources, and to safeguard functioning ecosystems. The Group has been involved in some of the early, pioneering work on ecosystems – playing a key role in wetland, grassland and HCV ecosystems.

The development of Ecosystem Management Plans (EMPs) for all our forestry operations in South Africa and Russia is a dynamic process, helping us improve the way we identify, protect, preserve, manage and in some cases restore, functioning ecosystems and biodiversity.

We identify and protect any ecologically important areas under our management and actively protect areas of important ecological value such as wetlands, grasslands and natural forests, our aim being to connect these sensitive areas with ecosystem networks to help preserve their biodiversity. In South Africa, we always leave a minimum of 25% of land under management aside for conservation purposes.

While we can only directly influence practices on our own land, we believe that the work we are undertaking in collaboration with the South African Government's 20-year Grassland Programme, the Ezemvelo KZN Wildlife Biodiversity Stewardship Programme and the Mondi Wetlands Programme can set a clear direction for other landowners and interested parties.

Third party certification

Wood is Mondi's most important raw material. It is therefore in our interest to ensure that we meet and support the requirements of sustainable forestry practices, from the management of our own forests right through to the procurement of our wood and fibre through the supply chain.

Responsible forestry is becoming an increasingly important competitive tool, and demand for certified wood and forest products, particularly Forest Stewardship Council (FSC™)-certified, is growing. Credible certification provides Mondi, our customers, consumers and stakeholders with assurance that the wood and fibre it buys is legitimately sourced from sustainable forests. Mondi is committed to ensuring that no wood is procured from controversial sources, and that all virgin fibre mills are certified to internationally credible Chain-of-Custody (CoC) standards.

In 2010, we reached our target of 60% of wood supplied to our processing plants being certified. The uncertified balance meets the FSC™ Controlled Wood Standard or the PEFC's Chain-of-Custody Standard and ensures suppliers source from legal and non-controversial sources. Mondi's ability to achieve increased certified wood percentages on an ongoing basis depends to a large degree upon the availability of certified products from external suppliers, in particular from small growers, a continuing challenge.

Supporting the preservation of High Conservation Value (HCV) areas

Mondi actively supports the preservation of HCV areas in both South Africa and Russia. We are engaged in partnerships to identify, classify and preserve forest and other ecosystems designated as HCV areas owing to their ecological or social significance.

We support the HCV Resource Network (HCV RN), a global network of organisations and individuals, which promotes a practical, consistent approach to HCV methodology, and participate actively in its activities.

New Generation Plantations

Mondi is a partner in the New Generation Plantations (NGP) Project, which is a collaboration between the WWF, companies and governments, working together to develop sustainable forestry solutions, and to promote management frameworks that create good environmental, social and economic results. SiyaQhubeka Forests is a good example of Mondi's support for the NGP approach. SiyaQhubeka Forests – a partnership between Mondi and our BEE partners, government and local communities – has played a leading role in ensuring 9,000 hectares of land, including a large plantation area, is incorporated into the iSimangaliso Wetland Park, providing protection for sensitive wetland and other HCV areas.

Economic performance

Creating economic value

As a corporate taxpayer, major employer, investor and purchaser of goods and services, Mondi makes a significant contribution to the economies in which we operate.

Value added statement (€ million)	2010	2009
Turnover	6,228	5,257
Purchased materials and services	(4,365)	(3,788)
Value added	**1,863**	1,469
Distributed to:		
Employees	963	871
Providers of equity capital	72	48
Providers of loan capital	117	163
Direct taxes paid	47	32
Reinvested in the Group	664	355
Total	**1,863**	1,469

Transformation and empowerment in South Africa

Mondi subscribes fully to the tenets of transformation and broad-based black economic empowerment (BBBEE) in South Africa. Giving life to this at an equity level, is our relationship with Shanduka Resources, a leading BEE company in South Africa, which holds a 42% interest in Mondi's integrated South African newsprint business (Mondi Shanduka Newsprint) and a 25% interest in Mondi Packaging South Africa.

We track and report on our BBBEE progress as prescribed by the BBBEE Codes of Good Practice regulated by the South African Department of Trade and Industry. In 2010 an independent verification agency certified Mondi as a Level 3 BBBEE contributor (on a scale of 1 to 8, with 1 being the most-highly rated), noting specifically the Group's performance in respect of preferential procurement, enterprise development and socio-economic development. This is an improvement on our rating as a Level 4 contributor in 2009.

Social performance

People: Safety and health

In line with our visible management commitment to zero harm in the workplace and supported by our Group SDMS, we take positive and proactive actions to improve our

Sustainable development review

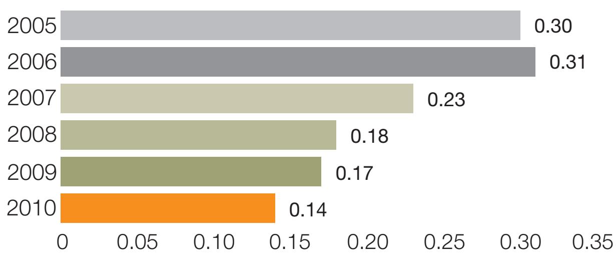
continued

Mondi's products are inherently sustainable, based on natural fibres from renewable sources

safety and health performance. We believe that all injuries are preventable and that no injury should be repeated if we learn from experience. We keep an up-to-date register of all significant safety risks and the improvements we have made in leadership, people involvement, plant practices and infrastructure have led to recent reductions in injuries and incidents. We do, however, recognise that more still needs to be done and it is with great regret that we report two fatal accidents during the year, both in South Africa – one involving a contractor in the forests, and the other an employee at the Merebank operation.

We measure our overall safety performance for employees and contractors using the lost-time injury frequency rate (LTIFR), which is based on 200,000 hours worked. In 2010 we recorded an LTIFR of 0.14 against a target of 0.10, an 18% improvement compared with 2009 and a 53% improvement compared with the 2005 base year (60% when excluding the performance of acquisitions).

Lost-time injury frequency rate (per 200,000 hours)



Most of our material operations work within externally accredited safety management systems and regular inspections, assessments and audits ensure that we devise and implement improvement plans as soon as a safety hazard is identified and the risk assessed. In addition, we conduct extensive safety training and safety drills across the Group and regularly review our fire prevention measures at all our operations and forest areas.

As incidents can involve contractors, Mondi has been focusing on improving the management of contractor safety for many years. Contractor safety performance has consequently improved and an LTIFR of 0.07 was recorded for 2010.

During 2010, additional focus was placed on annual maintenance outages as well as large projects. This additional focus, guidance and coaching resulted in all the material sites completing their annual maintenance outage periods without a single lost-time injury.

People: Employment and diversity

We develop and empower our people to achieve strong performance and personal growth in a dynamic and trusting culture that embraces diversity. At the end of December 2010, Mondi employed 29,000 people across the Group and provided employment for an estimated average of 21,000 contractors during the year.

Applications for employment by disabled persons are fully considered. In the event of an employee becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be consistent with that of other employees.

Training and development

We strongly support the training and development of our employees and contractors, not only so that they may undertake their jobs safely and productively, but also so that they may fulfill their potential. In 2010, a total of 1.65 million hours of employee and contractor time was devoted to training and development. Safety training focused on critical tasks as determined by one of our safety indicators for 2010.

Mondi's leadership development programmes encompass local initiatives designed and implemented at site level; and leadership development programmes designed and managed centrally to ensure consistency across the Group.

We encourage and embrace diversity, and are committed to the fair and equitable treatment of all, irrespective of origin, race, or gender. Mondi is proud to provide equal opportunities to men and women, and we ensure that our policies and practices support this.

Although we continue to be faced with many challenges in reaching our employment equity objectives at our South African operations, we remain committed to these and have training and career development initiatives in place to develop previously disadvantaged persons in a manner that is beneficial and meaningful to the Group and employees.

People: Land claims and community health in South Africa

Mondi has developed an innovative model for engaging and settling with land claimant communities in South Africa, and is working constructively with government and communities to develop claimant communities into sustainable forestry enterprises. Critical to Mondi's approach is ensuring that the land claim beneficiaries receive meaningful and sustainable benefits, and that sources of fibre are both assured and sustainably managed into the future and retain their FSC™ certification. In addition, the Mondi Zimele and Mondi Forestry Partners Division assist new timber farmers from claimant communities to win preferential forestry contracts by means of providing dedicated business training, mentoring and funding.

The primary community health concerns for our South African employees and communities are malnutrition and HIV/AIDS.

Inadequate nutrition, especially in impoverished rural communities in close proximity to some of our operations, is a significant community health issue in South Africa. In 2008, Mondi's South Africa Division launched the Food 4 Forests programme with the aim of ensuring that employees and contractors working in forestry operations receive and consume a nutritionally balanced meal during the course of their day's work. The results have been remarkable with 2010's figures showing 8,050 workers receiving over 1.8 million meals, via 220 drop-off points.

The HIV/AIDS pandemic continues to cause mortalities and illness amongst employees and community members alike, resulting in a significant number of orphans and vulnerable children (OVCs). Our efforts focus on improving employees' understanding of the condition; managing the impact of HIV/AIDS in the workplace; offering treatment to those who are HIV-positive; and facilitating access to health care for rural communities. We are also committed to reducing the spread of the disease in the wider community and supporting those who are affected by it. Our efforts include mobile clinics to take HIV/AIDS programmes and primary health care to contractor employees and communities living around Mondi's forestry operations and the Isibindi Project, a community-based programme which Mondi has rolled out to address the needs of OVCs directly affected by the disease.

Human rights

We aim to develop a diverse, multinational workforce that accurately reflects the diversity of the countries and communities in which we operate. We also endeavour to ensure that our suppliers and customers operate in line with the same principles. We recognise that issues related to the cultural heritage of indigenous communities affected by our operations, particularly those living in or close to forests, need to be addressed in a sensitive manner. We aim to resolve these issues in a spirit of respect, trust and dialogue.

We subscribe to the Universal Declaration on Human Rights and the Voluntary Principles on Security and Human Rights and ensure the provision of a fair, safe and healthy workplace for all employees, free from discrimination, harassment or abuse.

We are a signatory to the United Nations Global Compact (UNGC) and ensure alignment of our policies and practices with the Global Compact principles.

In line with the Fundamental Rights Conventions of the International Labour Organization (ILO), to which we subscribe, all employees are free to bargain collectively and can join a trade union of their choice. Our labour standards ensure that our remuneration systems are fair. We prohibit the employment of under-age labour and we do not procure goods or services from suppliers who use child labour. We do not engage in forced or compulsory labour practice and none of our operations are deemed to be at risk in this regard. We have developed a Code of Conduct for Mondi Group suppliers that requires their adherence to these principles.

Society

We want Mondi to be a sustainable, socially responsible business that makes a lasting contribution to the communities in which we operate, both through direct and indirect economic contributions and through community engagement programmes. Our Socio Economic Assessment Tool (SEAT) programme assists us in developing a structured approach to improve the wellbeing of our communities. SEAT reports drive our community programmes and facilitate improvements in terms of quality, relevance, scope and effectiveness of our corporate social investment programmes and projects.

We focus on sustainable community development initiatives by partnering with other stakeholders and by building human and institutional capacity. Specifically, we encourage partnerships and consistent dialogue with community change agents and key government officials.

Our community investment is focused on the following identified priorities, although we are mindful that there may be site-specific imperatives:

- education and training;
- local economic development;
- poverty alleviation;
- healthcare and in South Africa particularly, HIV/AIDS;
- environmental education and rehabilitation; and
- sports and recreation.

During 2010, Mondi contributed some €12.6 million (2009: €9.3 million) towards charitable donations and corporate social investment projects.

Corporate social investment expenditure (€000)	2010	2009
Community health and welfare	691	140
Education and youth	679	596
Environment	29	69
Community development	6,427	5,133
Arts, culture and heritage	146	306
Housing	837	–
Other	3,802	3,101
Total	**12,611**	9,345

The Group's policy is that no company in the Group shall make contributions or donations for political purposes.

Environmental performance

Environmental issues have been integrated into Group and operational strategies and plans. All mill operations have environmental management systems certified to ISO 14001 in place, except for Stambolijski in Bulgaria, which is awaiting certification after being mothballed in 2009 and restarted in 2010; and the Tire paper mill in Turkey, which is a recent acquisition and has not yet been certified.

Wood is an essential raw material for all of our virgin paper-based products. From wood fibre Mondi produces pulp, the basic ingredient of all paper and paper-based packaging. The pulp and paper manufacturing process also requires a large amount of process water and energy (in the form of steam and electrical power).

Energy consumption and CO_2 emissions

We recognise the need to consider and plan for the consequences of climate change, both in respect of the physical and non-physical impacts on our business, and the impacts on our markets. As we operate largely in developing economies, we consider the impacts of climate change on our communities too.

In 2010, our energy consumption in primary activities (the production of pulp and paper) was 86.1 million GJ (2009: 79.2 million GJ). The increase in energy consumption was mainly caused by increased production volumes. Total electricity requirements amounted to 5.6 million MWh (2009: 5.0 million MWh), with 79% of this electricity generated by Mondi's own power plants, using 66.7 million GJ fossil fuels and 80.2 million GJ biomass. A total of 7.3 million GJ of energy was sold to third parties, mainly from our operations in Syktyvkar, Štětí and Ružomberok. Between 2004 and 2010, we reduced our specific energy consumption for pulp and paper production by 11%, against a 2004 base year.

In 2010, our direct (scope 1) Group-wide GHG emissions amounted to 4.45 million tonnes CO_2e (2009: 4.54 million tonnes CO_2e), while our indirect (scope 2) emissions from purchased energy were 1.41 million tonnes CO_2e (2009: 1.37 million tonnes CO_2e). Our indirect emissions (scope 3) from transporting our products, employee commuting and business travel (reported for the first time) amounted to 0.34 million tonnes.

Between 2004 and 2010, we reduced our specific CO_2e emissions by 23%, against a 2004 base year.

CO_2e emissions from fossil fuel combustion are widely accepted to be one of the most significant drivers of climate change. Our climate change programme is aimed largely at the more efficient use of energy, and increasing our use of renewable energy (biomass, solar and wind) and switching to fossil fuels that are less carbon intensive.

One of the ways in which we optimise energy consumption, and hence reduce CO_2e emissions, is by maximising the use of combined heat and power (CHP) technology. In 2010, more than 90% of the electricity consumed by Mondi operations was generated by CHP, with commensurate energy savings of between 30% and 35% when compared with conventional generation methods.

To reduce our CO_2e emissions still further, we use less carbon-rich fossil fuels (natural gas to replace coal) wherever possible. We are also increasing our use of carbon neutral

Responsibility for our products

Mondi is committed to developing and delivering cost-efficient, high-performance, environmentally responsible paper and packaging solutions for our customers and users. We work to make sustainability a reality at every step of the supply chain by providing the products needed at the lowest possible financial, environmental and social cost. We value mutually beneficial interaction with our customers and strive for lasting business relationships.

Responsible and effective product stewardship involves actively managing the environmental, and safety and health impacts of our products throughout their lifecycles, from our forests to the end product, for all our products. Our stewardship approach is based on the integrated approach advocated by the Life-Cycle Initiative as set out in the United Nations Environmental Programme.

We have continued our efforts to measure and report the carbon footprints of our primary products. Since 2004, we have reduced our specific CO_2e emissions by 23%.

A Group-wide tool for calculating our product carbon footprint has been embedded into our sustainable development reporting system. We have aligned our supply chain management with our environmental commitments, and have started to monitor and calculate the carbon footprint associated with the transport and distribution of our products. In 2010, we had CO_2e emissions of 0.27 million tonnes from the transport of our products.

Examples of Mondi's sustainable, responsible products include our pioneering Sustainex® biodegradable packaging (a range of sustainable plastics) and the Mondi Green Range, where all products are certified by internationally recognised bodies to ensure we comply with our commitment towards conserving natural resources and reducing waste. For more information visit: www.mondigroup.com/products/greenrange.

More than 95% of our products are made with recyclable fibre. Our corrugated board can be re-used up to seven times before the fibres become unusable, while de-inked newsprint can be used up to four times. Materials that are too degraded for use in paper or board products can provide carbon-neutral energy.

Recovered paper is an indispensable raw material for our business and, in 2010, we used approximately 1.8 million tonnes of recovered paper to produce pulp. This amounted to 33% of our total pulp used.

Sustainable development review

continued

Mondi produces cost-efficient, high-performance, environmentally responsible paper and packaging solutions

biomass fuels. At all of our kraft pulp mills, we use biomass (for example, black liquor, an aqueous solution of residues from the kraft process used to produce paper and pulp) as an alternative to fossil fuels, making them energy self-sufficient and net energy providers. Surplus energy is used in paper production or by local communities and third parties. An added benefit of using biomass is that this material would have been sent to landfill if not used as fuel.

Since 2004, Mondi has invested more than €300 million in modernising our energy generation mills (including projects at Syktyvkar, Russia; Richards Bay, South Africa and Ružomberok, Slovakia); constructing new biomass installations (multifuel boiler in Merebank, South Africa, and Stambolijski, Bulgaria), and to transform some of our fossil-based boilers to biomass incinerators (Świecie, Poland).

Since 2004, we increased our use of renewable energy from 47% to 55%.

Cleaner production

We recognise that our operations can and do have an impact on our surrounding natural environments. As a minimum standard, we ensure that all our operations comply with the environmental laws and regulations of the countries in which we operate. To achieve our goal of cleaner production, we focus on three critical areas – emissions to air, emissions to water, and the management of waste. We frequently review Best Available Technique (BAT) concepts and related emission level values. Incident reporting systems are in place at all operations and all environmental incidents are recorded and classified.

We understand that water is a scare resource globally and we have committed to its responsible use and custodianship. During 2010, all our operations assessed their water consumption relative to local water availability against recognised water scarcity databases. In 2010, we had a total water input of 309.8 million m^3 (2009: 306.4 million m^3).

Water footprints have been calculated for all our material operations and fibre supply chain and are defined as the total amount of fresh water that is used to produce fibre in forests as well as paper and pulp in our operations.

In total, 290m^3 of water was discharged by Mondi's material operations in 2010 – 20% was non-contact water (e.g. cooling water) which was discharged directly into the aquatic environment, less than 1% was used for irrigation and about 80% was treated in our own or third party´s waste water treatment plants.

We use two critical indicators to measure our emissions to water and have reduction targets in place on reducing our overall impact on receiving water bodies. These are:

- chemical oxygen demand (COD), which reflects the effluent load for which we set a reduction target of 30% by 2010, against a 2005 base year; and
- adsorbable organic halogens (AOX), which reflects all types of halogen compounds present in the water that can be absorbed, for which we set a reduction target of 30% by 2010, against a 2005 base year.

Good progress was made in reducing COD emissions, with the Group having reduced COD by 34% over the five-year commitment period, from nearly 139,000 tonnes per annum in 2005 to approximately 91,000 tonnes per annum in 2010. Significant drivers of this reduction include a new waste water treatment plant at the Richards Bay mill in South Africa and efficiency improvements at Felixton, South Africa and Syktyvkar, Russia.

Similarly, in respect of AOX, significant improvements were achieved, largely as a result of the Group's policy to cease the use of elemental chlorine during bleaching. A reduction of 63% was achieved for the commitment period, from 390 tonnes per annum in 2005 to 143 tonnes per annum in 2010.

The most significant impact on air quality by our operations is the emission of total reduced sulphur (TRS) compounds from our pulp mills and we communicate regularly with stakeholders to address any concerns. Concentrated gases are emitted from digesters, evaporation plants and condensate strippers, while diluted gases emanate mainly from chip-pre-steaming, screening, pulp washing, smelt dissolvers and the ventilation of various tanks containing black liquor, etc. While they do not pose a health threat at the concentrations emitted on this scale, even trace amounts are enough to create an odour.

We set ourselves a reduction target of 65% in TRS emissions to atmosphere by 2010, against a 2005 base year. By the end of 2010, we had more than achieved our target, with TRS emissions in tonnes per annum declining by 70% over the commitment period.

A significant part of this reduction was achieved by the installation of closed reactors and the collection and incineration of any remaining emissions containing sulphur compounds, particularly the modernisation of the Ružomberok and Syktyvkar mills, and the project for the reduction of TRS emissions in Richards Bay.

In 2005, we committed to reducing our total waste-to-landfill volumes by 20% by 2010. Through a concerted effort – by increasing the recycling and reuse of materials, and by using more environmentally friendly processes – a 36% reduction to approximately 300,000 tonnes of total waste (hazardous and non-hazardous) to landfill per annum was achieved during this period. Further, we ceased the disposal of process hazardous waste to landfill at the end of 2009. Nevertheless, in 2010 we reported approximately 800 tonnes of non-process hazardous waste mainly in South Africa from decontaminating repairs and maintenance activities.

Research and development

Our research and development activities aim to provide continuous and proactive improvements in processes and products. Research is focused on improving the quality and range of products in terms of both cost and environmental factors. Expenditure on research and development during 2010 was €11 million (2009: €8 million).

Board of directors

Top row (from left): Colin Matthews, Andrew King, John Nicholas, Peter Oswald
Bottom row (from left): Imogen Mkhize, David Williams, David Hathorn, Cyril Ramaphosa, Anne Quinn

Cyril Ramaphosa, 58

Joint chairman

Cyril Ramaphosa was appointed joint chairman in May 2007 and he is also a member of the DLC nominations committee.

A law graduate from the University of South Africa (Unisa), he joined the Council of Unions of South Africa as a legal adviser in 1981. He went on to join the National Union of Mineworkers, South Africa's largest trade union, serving as general secretary until 1991.

Cyril is currently executive chairman of Shanduka Group (Proprietary) Limited, which owns Shanduka Newsprint (Proprietary) Limited and Shanduka Packaging (Proprietary) Limited, and non-executive chairman of telecommunications group MTN Group Limited. He is also a non-executive director of insurance group SASRIA Limited, brewing group SABMiller plc, mining group Lonmin plc, steelmaker MacSteel Global and financial services groups Alexander Forbes Equity Holdings (Proprietary) Limited and Standard Bank Group Limited.

Cyril is past chairman of the Black Economic Empowerment Commission in South Africa. He was chairman of the Constitutional Assembly which negotiated South Africa's first democratic dispensation. He holds honourary doctorates from a number of institutions, including the University of Pennsylvania and the University of Massachusetts.

David Williams, 65

Joint chairman

David Williams was appointed to the Mondi Boards as senior independent director in May 2007 and as joint chairman in August 2009. He is also chairman of the DLC nominations committee and is a member of the DLC remuneration committee.

A chartered accountant, David retired as finance director of Bunzl plc in January 2006, having served on the board for 14 years. He is a non-executive director of Dubai-based DP World Limited, Tullow Oil plc and Meggitt plc, chairing the audit committees of all three. He was senior independent director of Taylor Wimpey plc until March 2010. David is also a former non-executive director of the Peninsular & Oriental Steam Navigation Company, Dewhirst Group plc and Medeva plc.

Executive directors

David Hathorn, 48

Chief executive officer

David Hathorn graduated in commerce from the University of Natal and qualified as a chartered accountant in 1987 at Deloitte & Touche. He joined Anglo American plc in 1989 as a divisional finance manager, moved to Mondi in 1991 and went on to serve as finance director and then general manager of Mondi Europe until 2000, when he was appointed chief executive officer of the Mondi Group. He chairs the DLC executive committee and is a member of the DLC sustainable development committee.

At Anglo American plc, David was a member of the executive committee from 2003 and an executive director from 2005 and served on the boards of a number of companies, including De Beers, Anglo Platinum and Anglo Coal. He oversaw the demerger of Mondi and its dual listing in Johannesburg and London in 2007.

Andrew King, 41

Chief financial officer

Andrew King graduated in commerce from the University of Cape Town and qualified as a chartered accountant in 1994 at Deloitte & Touche. He joined Minorco, the international arm of Anglo American, as a financial analyst in 1995 and subsequently assumed responsibility for the group's investment management activities. He transferred to Minorco's corporate finance department in 1998, working on a number of group M&A activities before being appointed a vice president of Anglo American Corporate Finance in 1999.

Andrew was appointed Mondi's vice president of business development in 2002 and corporate development director in 2004. He served as chief financial officer of Mondi from June 2005 to May 2006, before being appointed as Group strategy and business development director. He was heavily involved in the listing process and establishment of the Group's dual listed corporate structures. Andrew was appointed chief financial officer in October 2008.

Peter Oswald, 48

Chief executive officer: Europe & International Division

Peter Oswald graduated in law and business administration from the University of Vienna, beginning his career with Deutsche Bank and automotive company KTM. He joined the Frantschach Group in 1992 as the head of internal audit, later becoming corporate controller.

After serving as chief executive of the bag and flexibles business from 1995 to 2001, overseeing its recovery and expansion, Peter was appointed chief executive of Mondi Packaging Europe in 2002, leading its subsequent integration with Frantschach into the new Mondi packaging division.

At the beginning of 2008 Peter joined the Mondi Boards as chief executive officer of the Group's Europe & International Division, comprising all the former Mondi Packaging and Mondi Business Paper operations outside South Africa.

Peter serves as a non-executive director of Telekom Austria AG and as president of respACT-austrian business council for sustainable development.

Independent non-executive directors

Anne Quinn CBE, 59

Senior independent director

Anne Quinn was appointed to the Mondi Boards in May 2007 and as senior independent director in August 2009. She chairs the DLC remuneration committee and is a member of the DLC audit, nominations and sustainable development committees.

Anne graduated with a bachelor of commerce from Auckland University and has a master's degree in management science from the Massachusetts Institute of Technology (MIT). She spent her early career with NZ Forest Products Limited and the US management consulting company Resource Planning Associates. She then joined Standard Oil of Ohio, which was subsequently acquired by BP plc. Anne went on to work for BP in the US, Belgium, Colombia and the UK and held a number of executive positions, including group vice president. She was awarded a CBE for services to the natural gas industry.

Anne has also been a managing director of Riverstone Holdings (Europe), a private equity investment firm specialising in the renewable and conventional energy and power industries.

A non-executive director of Smiths Group plc, she was a non-executive director of The BOC Group plc from 2004 to 2006. She currently serves on the MIT President's Advisory Committee to the Sloan School.

Colin Matthews, 54

Colin Matthews was appointed to the Mondi Boards in May 2007. He is chairman of the DLC sustainable development committee and is a member of the DLC audit, nominations and remuneration committees.

He graduated in engineering from Cambridge University and has an MBA from INSEAD. After a period in the motor industry in the UK and Japan and a spell in management consultancy with Bain & Company, he joined the (US) General Electric Company. In 1997 he joined British Airways plc as managing

Board of directors continued

director BA Engineering and later became director of technical operations, responsible for engineering, flight crew, IT and procurement.

Colin was group managing director of Transco from 2001 to 2002 and then chief executive officer of Hays plc from 2002 to 2004, where he led the transformation into a pure specialist recruitment and HR services business. From 2005 to October 2007, he was group chief executive of Severn Trent plc, where he oversaw the restructuring of the business into a focused water services company. Colin joined BAA, the British airport operator, as chief executive on 1 April 2008.

Imogen Mkhize, 47

Imogen Mkhize was appointed to the Mondi Boards in May 2007. She is a member of the DLC nominations and remuneration committees.

After graduating in information systems from Rhodes University in 1984, she completed an MBA at Harvard Business School in 1995. She spent her early career with Anglo American, Andersen Consulting and the financial services group Nedcor, before becoming managing director of telecommunications group Lucent Technologies South Africa. Between 2003 and July 2006, she held the position of chief executive officer of the 18th World Petroleum Congress, an international oil and gas event.

Imogen is currently chairman of Richards Bay Coal Terminal, one of the largest coal export terminals in the world. She is also a director of energy group Sasol Limited and Mobile Telephone Networks (Proprietary) Limited. She is a member of the South African Financial Markets Advisory Board and Rhodes University Board of Governors and chairman of Rhodes Business School.

Imogen was a director of engineering group Murray & Roberts Holdings Limited until October 2010 and a member of the Harvard Business School Global Alumni Board until May 2010.

In 2001 Imogen was recognised by the World Economic Forum as a Global Leader for Tomorrow.

John Nicholas, 54

John Nicholas was appointed to the Mondi Boards in October 2009. He chairs the DLC audit committee and is a member of the DLC nominations committee.

A fellow of the Association of Chartered Certified Accountants, he holds a master's degree in business administration from Kingston University.

Much of John's early career was spent in technology-focused international manufacturing and service companies involved in analytical instruments, fire protection and food processing. He became group finance director of Kidde plc on its demerger from Williams Holdings and was group finance director at Tate & Lyle plc from 2006 to 2008.

He is currently a member of the UK Financial Reporting Review Panel, which seeks to ensure that the provision of financial information by public and large private companies complies with relevant reporting requirements.

John is a non-executive director of Ceres Power Holdings plc, Hunting PLC and Rotork p.l.c., chairing the audit committees of all three.

DLC executive committee and company secretaries

The DLC executive committee is made up of chief executive officer David Hathorn (chairman), chief financial officer Andrew King, chief executive officer of the Europe & International Division Peter Oswald, and other senior members of management.

From left: Peter Machacek, Ladimir Pellizzaro, Ron Traill, Philip Laubscher, Carol Hunt

Peter Machacek, 58

Chief executive officer: Uncoated fine paper & containerboard

Peter Machacek graduated in business administration from the University of Vienna in 1976 and began his career with Kienzle Datasysteme and Tetra Pak in Austria. In 1981 he moved to the Frantschach Group as sales and marketing manager of the group's converting business. In 1988 he became sales director of Patria Papier & Zellstoff, the sales company for the Frantschach paper mill, and was shortly afterwards appointed to the management board of the mill.

In 2000 he became executive vice president of Mondi Packaging Paper, responsible for the Dynäs, Frantschach, Štětí and Świecie paper mills, and subsequently became chief executive officer of Mondi's packaging paper division, responsible for the Group's five newly acquired recycled containerboard mills in Austria, Germany, Italy, Switzerland and the UK. Peter assumed his current role and joined the management board of the Europe & International Division following the reorganisation of the Group's operations at the beginning of 2008.

Peter is vice-president of the Austrian Federation of Paper Makers.

Ladimir Pellizzaro, 68

Group technical director

Ladimir Pellizzaro graduated in mechanical engineering from the Federal University of Paraná in Brazil, going on to specialise in pulp and paper technology. He acquired extensive experience in the pulp and paper industry with a number of Brazilian companies, including Klabin, Aracruz and Suzano, in roles ranging from engineering to operations management and project management.

Ladimir joined Mondi in 1990, shortly thereafter becoming general manager of the then kraft division of Mondi South Africa. In 1994 he was appointed technical director of Mondi South Africa and was a key player in the team that drove the expansion of Mondi into Europe. In 2000, he moved to London taking up the role of technical director of Mondi International with worldwide responsibility for projects, operational optimisation and technical evaluation of major acquisitions. He took a break from Mondi in 2005, following which he was retained by the Group as an adviser prior to rejoining Mondi as Group technical director in January 2009.

Ron Traill, 56

Chief executive officer: South Africa Division

Ron Traill graduated in mechanical engineering and management from Dundee College in Scotland in 1980. He began his career as an industrial engineer with DRG Packaging Group, working in its Scottish paper mill. He went on to hold a succession of posts within the company, leading ultimately to his appointment as general manager. Following DRG's acquisition by Sappi in 1990, he worked for 10 years in a number of general management roles.

Ron has also held senior operational positions with Fletcher Challenge and with Tullis Russell, the UK's largest independent paper mill.

He joined Mondi in 2003 as managing director of the Štěti pulp and paper mill in the Czech Republic, also assuming responsibility for the Mondi packaging paper business in Ružomberok, Slovakia. Ron took up the position of chief executive officer of Mondi's South Africa Division in January 2008.

Philip Laubscher, 55

Company secretary Mondi Limited

Philip Laubscher, who holds BProc and LLB degrees and is an attorney of the High Court of South Africa, was in-house counsel with national power utility Eskom for 15 years before joining Mondi in 1999 as head of legal services. He was appointed company secretary of Mondi Limited in January 2001.

Carol Hunt, 49

Company secretary Mondi plc

Carol Hunt, a fellow of the Institute of Chartered Secretaries & Administrators, spent 15 years with The BOC Group plc, holding various roles in the company secretariat, the last six years as deputy company secretary. She joined Mondi in November 2006 and was formally appointed company secretary of Mondi plc in May 2007.

Philip and Carol work together on the co-ordination of Mondi's DLC structure.

Corporate governance report

Introduction from joint chairmen

Through the work of the DLC Board (being the boards of both Mondi Limited and Mondi plc) and the DLC committees, an environment of compliance and ethical behaviour is created with approved policies and procedures clearly communicated throughout the Group.

Mondi's DLC structure requires compliance with the governance codes of both South Africa and the UK. With new governance codes issued in both jurisdictions that will apply to Mondi for its 2011 financial year, 2010 has necessitated a focus by the Boards on how best to implement the principles of both codes in a way that ensures Mondi continues to meet best practice. The Boards have reviewed the new requirements in detail and have instigated changes to procedures and practices to ensure compliance as far as practicable for Mondi under its DLC structure. The few areas of potential non-compliance have been given further consideration to ensure that existing practices continue to provide appropriate and effective governance. Early adoption of the new principles has been encouraged where possible. For example, all directors will be standing for re-election at the 2011 annual general meetings and an externally facilitated board evaluation process was undertaken in 2010. We trust the report below provides an insight into our corporate governance framework.

The Boards devote time to monitoring and reviewing critical aspects of the Group's operations. For example, reports have been received by the Boards at every meeting during the period leading up to the commissioning of the major projects in Poland and Russia, with on-going feedback on progress since commissioning; the funding strategy is reviewed on a quarterly basis; and safety performance is reviewed at every meeting.

Mondi remains committed to strong ethical values and professionalism in all its activities and the Boards support the highest standards of corporate governance and best practice and are committed to the principles of transparency, integrity and accountability.

Cyril Ramaphosa
Joint chairman

David Williams
Joint chairman

Dual listed company structure

Mondi operates under a dual listed company (DLC) structure, which requires compliance with the corporate and accounting regulations of South Africa and the UK. Mondi Limited and Mondi plc (together 'the Mondi Group' or 'Mondi') have separate corporate identities and separate stock exchange listings. Mondi Limited has a primary listing on the JSE Limited (JSE), while Mondi plc has a premium listing on the London Stock Exchange and a secondary listing on the JSE. Under the DLC structure, any ordinary share held in either Mondi Limited or Mondi plc gives the holder an effective economic interest in the whole Mondi Group.

The relationship between Mondi Limited and Mondi plc is underpinned by the DLC structure principles, which provide that:

- Mondi Limited and Mondi plc and their subsidiaries must operate as if they are a single corporate group; and
- the directors of Mondi Limited and Mondi plc will, in addition to their duties to the company concerned, have regard to the interests of the Mondi Limited shareholders and the Mondi plc shareholders as if the two companies were a single unified economic enterprise and for that purpose the directors of each company will take into account, in the exercise of their powers, the interests of the shareholders of the other.

The DLC structure requires Mondi to comply with the disclosure obligations forming part of the Listings Requirements of the JSE Limited and the Disclosure and Transparency Rules, Listing Rules and Prospectus Rules of the UK Listing Authority. The Boards review and monitor the procedures that are in place to ensure compliance and have agreed to apply on each issue whichever is the higher standard of governance and regulation between South Africa and the UK.

Compliance statement

Mondi has complied throughout the year with the principles contained in the South African King II Code of Corporate Practices and Conduct (available at www.iodsa.co.za) and Section 1 of the UK Combined Code on Corporate Governance 2008 issued by the Financial Reporting Council (available at www.frc.org.uk) save that Cyril Ramaphosa, the joint chairman, was not considered independent upon appointment, as explained below.

The South African King III Code of Corporate Governance Principles (available at www.iodsa.co.za), published in September 2009 and the UK Corporate Governance Code (available at www.frc.org.uk), published in June 2010, are effective for financial years commencing on or after 1 March 2010 and 29 June 2010, respectively. Although the Mondi Group is not therefore required to report on its compliance with either new code until its 2011 annual report, the Boards have already reviewed the codes and have applied certain of the principles that are reported on below.

Boards of directors

Mondi Limited and Mondi plc have boards of directors comprising the same individuals. This enables the effective management of the dual listed structure as a single unified economic enterprise with due consideration being given to the interests of the ordinary shareholders of both Mondi Limited and Mondi plc.

As at 31 December 2010 there were nine directors: the joint chairmen, three executive directors and four non-executive directors. Each of the four non-executive directors are considered by the Boards to be independent as defined in the governance codes of South Africa and the UK. There is a strong mix of skills and industry experience, particularly in Europe and South Africa, locations important to Mondi's operations.

On appointment each non-executive director receives letters of appointment from each of Mondi Limited and Mondi plc setting out, among other things, their term of appointment, the expected time commitment for their duties to Mondi and details of any DLC committees of which they are a member. Non-executive directors are initially appointed for a three year term after which their appointment may be extended for a second term subject to mutual agreement.

The directors holding office during the year ended 31 December 2010 are listed below, together with their attendance at Board meetings held during the year. Those in office as at the date of this report, together with their biographical details, can be found on pages 44 to 46.

During the year there were six combined DLC Mondi Limited and Mondi plc meetings in accordance with the DLC structure and arrangements. In addition, each company held an additional meeting to cover specific local requirements. All Board meetings are convened by formal notice, incorporating a detailed agenda.

There is a schedule of matters reserved for the Boards. This is reviewed annually and is available on the Mondi Group website at www.mondigroup.com. In view of the broad nature of the Boards' responsibilities certain specific duties have been delegated to committees as detailed below.

Directors	Position	Independent	Board member since	Mondi Limited board (one meeting)	Mondi plc board (one meeting)	DLC board (six meetings)
Cyril Ramaphosa	Joint chairman	No	May 2007[1]	1	1	6
David Williams	Joint chairman	Yes	May 2007	1	1	6
David Hathorn	Chief executive officer	No	May 2007[1]	1	1	6
Andrew King	Chief financial officer	No	October 2008	1	1	6
Colin Matthews	Non-executive director	Yes	May 2007	1	1	6
Imogen Mkhize	Non-executive director	Yes	May 2007	1	1	6
John Nicholas	Non-executive director	Yes	October 2009	1	1	6
Peter Oswald	Chief executive officer, Europe & International Division	No	January 2008	1	1	6
Anne Quinn	Senior independent non-executive director	Yes	May 2007	1	1	6

1 Cyril Ramaphosa and David Hathorn were appointed directors of Mondi Limited in December 2004 and May 1997, respectively.

Corporate governance report continued

Having emerged in robust financial health from the challenging economic environment of 2009, during 2010 the Boards have refocused on the longer term strategic priorities and direction for the Group. A key area of focus has been defining the longer term growth objectives for the Group following the successful completion of the two major strategic capital expenditure projects in Poland and Russia. The Boards continue to focus on the need to manage risk, to provide oversight and challenge to management, to protect the Group's assets and to ensure that the Group operates within a framework of robust risk management, corporate governance and ethical behaviour.

Management and advisers present to the Boards on a variety of topics in accordance with both the annual rolling programme agreed by the Boards and on an ad hoc basis at the request of the Boards in response to any concern or change in circumstances or regulation. Periodically the Group's brokers will attend board meetings to update the directors on the views of investors and in particular to provide feedback from the roadshows undertaken by management after the full and half-yearly results announcements.

In addition, the Group's legal advisers attend certain meetings to provide updates on changes in regulation impacting the Group and affecting the duties of directors. The chairmen of each committee report regularly to the Boards on matters considered by the committees to ensure that the Boards have all relevant information to enable them to fulfill their duties.

In accordance with the matters reserved for the Boards, a number of other regular reviews of shareholder matters and the implementation of Group policies, including the code of business ethics and the share dealing code, have been considered. Also, consideration of the business plan and budget, the annual financial statements and regularly reported results (under advice from the DLC audit committee), succession planning (under advice from the DLC nominations committee), listing requirements, governance and a variety of Group policy matters have been reviewed and debated.

Communication between directors outside the formal meetings is provided to them in hard copy, by e-mail and telephone, as appropriate to the circumstances.

Non-executive director meetings, chaired by the joint chairmen (except when their performance is being considered), are held twice a year. One meeting has no executive management in attendance and one is attended by the chief executive officer. The meeting agendas vary but primarily consider the performance and actions of the executive management.

A policy is in place pursuant to which each director may obtain independent professional advice at Mondi's expense in the furtherance of their duties as a director of either Mondi Limited or Mondi plc. No requests were received during the year.

Throughout the year to 31 December 2010, in line with market practice, Mondi maintained directors' and officers' liability insurance.

Joint chairmen and chief executive officer

Mondi has joint chairmen, Cyril Ramaphosa and David Williams, with the chief executive officer role held separately by David Hathorn. The division of responsibilities between the joint chairmen and the chief executive officer has been clearly defined and approved by the Boards.

The principal responsibilities of the joint chairmen include to:
- lead the Boards, ensuring their effectiveness and setting their agenda;
- ensure high standards of corporate governance;
- ensure that the Boards set a clear and appropriate strategy for the Group; and
- ensure effective communication with shareholders and other stakeholders.

The principal responsibilities of the chief executive officer include to:
- lead the business;
- chair the DLC executive committee and lead the management team;
- ensure that the Group has effective processes and controls; and
- ensure that the Boards receive accurate, timely and clear information about the Group's performance.

The joint chairmen and chief executive officer work together to ensure that there is effective co-ordination of their roles and responsibilities. In particular, they work closely together on matters such as the relationships with major shareholders, government, analysts, media and other external relationships at a senior level and on major acquisitions and disposals.

The joint chairmen maintain a regular dialogue with each other and manage the Boards through mutual agreement. Half the board meetings are held in South Africa and these will usually be chaired by Cyril Ramaphosa, with David Williams chairing the remaining meetings held in Europe.

David Hathorn, chief executive officer, does not hold any directorships external to Mondi. The main positions held by Cyril Ramaphosa and David Williams outside the Mondi Group are detailed in their biographies set out on page 44. In July 2010 Cyril Ramaphosa was appointed a non-executive director of Lonmin plc, whilst David Williams relinquished his directorship of Taylor Wimpey plc in March 2010. The Boards continue to consider that the chairmen's external directorships do not interfere with the time they devote to Mondi, with both having made themselves available to management and other directors when required.

Whilst David Williams was independent upon appointment, Cyril Ramaphosa was not considered independent upon appointment in view of his existing connection with Mondi as chairman of the Shanduka Group, which has shareholdings in Mondi Shanduka Newsprint (Proprietary) Limited and Mondi Packaging South Africa (Proprietary) Limited (see page 144). Notwithstanding this, Mondi benefits greatly from his considerable knowledge and experience, particularly of the South African business environment, and the Boards firmly believe that this justifies his appointment. In addition, David Williams, together with the four independent non-executive directors, provides the required level of independent oversight. Cyril excuses himself from any board level discussions involving matters in which he may have an interest through the Shanduka Group.

Senior independent director

Anne Quinn is the senior independent director providing support to the joint chairmen. During the year she has chaired a meeting of the non-executive directors at which the performance of the joint chairmen was considered. She is also available to shareholders should they have any concerns that contact through other channels has failed to resolve or for which such contact may be inappropriate. No such requests were received during the year.

Company secretaries

Philip Laubscher is the company secretary of Mondi Limited and Carol Hunt the company secretary of Mondi plc. The appointment and removal of the company secretaries is a matter for the Boards. All directors have access to the advice and services of the company secretaries. Throughout the year the company secretaries have ensured compliance with the correct board procedures. They report at each board meeting on relevant corporate governance and regulatory matters and changes, including the provision of advice on the performance of directors' duties and the continuing obligations of the stock exchanges on which Mondi is listed. This has continued to be important as regulation and governance in both South Africa and the UK has changed during 2010.

Under the direction of the joint chairmen, the company secretaries manage the provision of information and documentation to the Boards. In particular, meeting papers are issued one week in advance thereby allowing directors sufficient time to prepare fully for any Board or committee meetings.

Induction and professional development

An induction programme has been developed that is tailored to the individual upon appointment. The programme includes meetings with divisional business unit executives and other members of the DLC executive committee, site visits and meetings with key advisers, in particular the external auditors. In addition, a briefing from one of the company secretaries is provided on the DLC structure and its implications for the Boards, as well as the corporate governance issues in South Africa and the UK affecting the Group, directors' duties and continuing obligations of the stock exchange listings. The company secretaries provide all directors with a handbook containing the committee terms of reference and key Group policies together with other material to assist them in understanding and fulfilling their duties. This is regularly reviewed and updated.

Site visits have been arranged where the opportunity arises in conjunction with Board meetings. In November 2010 the Boards visited Syktyvkar in Russia to view the recently modernised mill and the forestry operations. John Nicholas also made a site visit to the Group's mill at Merebank in South Africa in August 2010. In addition, opportunities to introduce the Boards to local management teams are taken, utilising site visits, meetings and board presentations. All the directors participated in the Mondi senior management conference held in Budapest in May 2010, meeting the top 120 senior executives. These are useful opportunities for the directors to meet Group employees below executive management who feature in the Group's succession plans.

Regular updates on developments in governance and regulation are provided to the Boards by the company secretaries and external advisers. In addition, function specialists present at board meetings at regular intervals. Directors are also made aware of, and attend, relevant external training courses, workshops and seminars which support their position on the Boards or on a committee.

It is acknowledged that valuable experience can be gained by executive directors serving as non-executive directors on the boards of other companies. The Boards have in place a policy setting out the parameters for such appointments. The executive directors must seek the prior approval of the Boards on the appropriateness of any proposed appointment and ensure that the number of any such commitments is contained, with the respective time commitments manageable. A director will retain any fee paid to them in respect of directorships held that are external to Mondi. Peter Oswald is currently the only executive director holding an external position, being a non-executive director of Telekom Austria AG. His current fee is set at €15,000 per annum plus a meeting attendance allowance that totaled €3,000 for the year.

Performance evaluation

During the year the action plan from the previous evaluation was reviewed to ensure that the objectives set were being achieved. One proposal from the 2009 evaluation was to consider an externally facilitated evaluation for 2010.

Following a review of different advisers, Boardroom Review, UK consultants specialising in board evaluations, was engaged as the independent external facilitator for the 2010 performance evaluation. Boardroom Review undertook one-to-one interviews with each director and certain other key personnel who provide support and advice to the Boards and committees. The evaluation also included observation of the Boards and committees in session, and a review of certain administrative processes that support the Boards. The results of the review were presented to and discussed by the Boards in January 2011.

The recommendations from the evaluation focused on some key themes around which the Boards have formulated an action plan. These included:

- the approach to executive succession planning;
- deciding board composition priorities for the future; and
- formalising a non-executive director development programme.

Having considered the feedback from the evaluation the Boards have concluded that the Boards and committees operate effectively and consider that each director is maximising their contribution and demonstrating commitment to their role.

The review of the performance of the joint chairmen was led by Anne Quinn, as senior independent director, at a meeting of the non-executive directors. It was concluded that Cyril Ramaphosa and David Williams working together provide the Group with sound leadership based on many years of experience and knowledge of international organisations.

Procedure for conflicts of interest

Company law and the articles of association of both Mondi Limited and Mondi plc allow directors to authorise potential conflicts. Procedures are in place to manage such situations.

The procedures include the following:

- an initial review by the company secretaries of the details of any potential conflicts of interest, or changes to previously authorised conflicts, notified by a director and presentation of the facts to the Boards for consideration;
- an unconflicted quorum of the Boards consider, in accordance with the articles of association and their other statutory duties, the details and, where considered appropriate, authorise the potential conflict. The director is advised of the outcome and the scope and limitations of the authorisation, where applicable;
- a record is maintained of all authorisations given, including the scope and any limitations to such authorisations; and
- all authorisations are reviewed on an annual basis by the Boards to ensure that it is appropriate for the relevant matter to remain authorised.

DLC committees

The DLC committees, to which the Boards delegate specific areas of responsibility as described below, have authority to make decisions according to their terms of reference. Work programmes are agreed by each committee that are designed around the annual business calendar and their respective terms of reference. Each committee reviews its terms of reference on an annual basis and these are available on the Mondi Group website at: www.mondigroup.com or on request. The committees are empowered, through their terms of reference, to seek independent professional advice at Mondi's expense in the furtherance of their duties.

Whilst only committee members are entitled to attend committee meetings, the chairmen of each committee can invite, as they consider appropriate, management and advisers to meetings to provide information, answer questions and generally to assist the committees in carrying out their duties. To ensure that the Boards as a whole have an understanding of any key issues under consideration by a committee, each committee chairman provides a report to the Boards following each committee meeting.

The company secretaries of Mondi Limited and Mondi plc each act as secretary to each of the DLC committees.

The membership of each of the DLC committees, together with attendance at each of the committee meetings held during the year, is detailed below.

DLC audit committee

Members	Committee member since	DLC audit committee (four meetings)
Colin Matthews	May 2007	4
John Nicholas (chairman)	October 2009	4
Anne Quinn	May 2007	4

The DLC audit committee operates on a Group-wide basis. The committee met four times during the year and has four meetings scheduled for 2011. The meetings are planned around the Group's financial reporting cycle. The Group heads of internal audit and representatives from the external auditors, Deloitte & Touche and Deloitte LLP, are regularly in attendance at meetings. The chief executive officer and chief financial officer attend by invitation, as do other personnel from key finance functions. For example, the Group financial controller reports to the committee on the half-yearly and full year financial results.

All members of the committee are independent non-executive directors. They each have relevant financial, accounting or similar experience from current or past employment. The Boards consider each member has appropriate knowledge and understanding of financial matters, sufficient to enable them to consider effectively the financial and accounting issues that are presented to the committee. The Boards consider John Nicholas, DLC audit committee chairman, to have specific recent and relevant financial experience. He is a chartered accountant and a member of the UK Financial Reporting Review Panel. He was formerly the group finance director of Tate & Lyle plc and is currently the audit committee chairman of Ceres Power Holdings plc, Hunting PLC and Rotork p.l.c..

In accordance with the JSE Listings Requirements, the DLC audit committee has satisfied itself that Andrew King, Mondi's chief financial officer, has the 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.

The committee has responsibility, among other things, for monitoring the integrity of the Group's financial statements and reviewing the results announcements. In fulfilling this responsibility the committee considers significant financial reporting judgements made by management, taking into account the reports received from the Group financial controller and the external auditors and considers the compliance of the financial statements with International Financial Reporting Standards. It also has responsibility for reviewing the effectiveness of the Group's system of internal controls and risk management systems, details of which can be found on pages 30 to 33 of this annual report. At least once during each financial year the committee meets with the internal and the external auditors, separately, without executive management present. This provides an additional opportunity for an open exchange of views and feedback.

The committee operates under formal terms of reference and these are reviewed annually. The committee considers that it has discharged its responsibilities as set out in its terms of reference to the extent appropriate during the year. Specific matters reviewed by the committee during 2010 included:

- reviewing the integrity of the Mondi Group half-yearly results and full year results, including reports from the Group financial controller and the external auditors on those results;
- consideration, and recommendation to the Boards, of the implementation of significant accounting policies for the 2010 financial year;
- reviewing the annual report;
- reviewing and approving the external audit plan, the proposed fees for the 2010 year-end and the engagement letters;
- reviewing the effectiveness, independence and objectivity of the external auditors and considering their re-appointment;
- monitoring the effectiveness of the risk management process, including the review of specific Group risks both through the annual review of all key Group risks identified and a more detailed review of at least two of those risks at each meeting; and specifically reviewing information technology risk management;
- monitoring the effectiveness of the Group's system of internal controls;
- reviewing the non-audit services policy and the services approved;

- monitoring and reviewing the effectiveness of internal audit activities, which included: a review of the internal audit charter; audits carried out, the results thereof and management's response; the programme for 2010 and 2011; reports received via Speakout (the Group's whistle-blowing facility); and reports on fraud;
- commissioning and reviewing the output from an external review of the internal audit function;
- reviewing the effectiveness and experience of the chief financial officer and the finance function;
- reviewing the competition compliance programme;
- reviewing elements of the Group's code of business ethics;
- reviewing the audit and risk management activities of the Group's South African widely held companies;
- a review of new regulations and governance introduced in South Africa regarding the operation and responsibilities of audit committees; and
- a review of the terms of reference of the committee, its performance against those terms and the 2011 work programme for the committee.

The DLC audit committee oversees the relationship with the external auditors; is responsible for their appointment, reappointment and remuneration; reviews the effectiveness of the external audit process; and ensures that the objectivity and independence of the external auditors is maintained. Representatives from Deloitte & Touche and Deloitte LLP report to the committee on their independence and objectivity and the mechanisms employed to ensure this is maintained.

In considering the effectiveness of the external audit the committee has taken into account feedback received from management involved with the audit, in particular the chief financial officer and Group financial controller. In addition the committee reviewed directly with Deloitte the work undertaken against the agreed plan, questioning any deviations from the plan and the reasons for this. Of particular concern to the committee is the assessment of the way in which certain key accounting and audit judgements have been made and the auditors' report on the systems of internal control, these are reported on by Deloitte to the committee who then have the opportunity to question them on their responses and findings. There are also Group policies in place regarding the employment of ex-audit staff and the provision of non-audit services.

The committee, having considered all relevant matters, has concluded that it is satisfied that auditor independence, objectivity and effectiveness have been maintained.

Deloitte & Touche and Deloitte LLP were appointed as Mondi's external auditors at the time of the demerger of Mondi from Anglo American plc in July 2007 and are familiar with the reporting complexities arising from the Group's dual listed company structure. As such, the DLC audit committee does not consider that it would be appropriate at this time to put the audit out to tender, but will continue to keep this under review. The committee confirmed that Deloitte & Touche are included in the JSE list of accredited auditors. Following these considerations the committee made a recommendation to, which was accepted by, the Boards that resolutions to reappoint Deloitte & Touche and Deloitte LLP be proposed at the annual general meetings of Mondi Limited and Mondi plc, respectively, to be held in May 2011.

A policy that formalises the arrangements regarding the provision of non-audit services provided by the auditors of Mondi Limited and of Mondi plc to the Group sets out the procedures for the pre-approval of such services. All non-audit services provided by the auditors are pre-approved by either the Group chief financial officer or the DLC audit committee chairman under delegated approval authorities from the DLC audit committee. The policy also details those non-audit services that are prohibited, including financial information systems design, internal audit outsourcing and actuarial valuation services. Reports are presented to the committee at each meeting detailing any non-audit services approved since the previous meeting, to enable the committee to monitor the provision of these services to ensure that they do not impair the external auditors' independence and objectivity. Whilst there remain a number of historical matters where the external auditors will continue to be used, it is anticipated that the level of such services will diminish over time. The breakdown of the fees paid to the external auditors, including the split between audit and non-audit fees, is included in note 3 on page 98 to the financial statements.

The heads of internal audit have direct access and responsibility to the DLC audit committee and work closely with the committee in co-ordination with the external auditors. The committee reviews the activities of the internal audit function at each meeting. The internal audit reports include details of audits carried out, the results and management's response to matters raised during the audits, and fraud and whistle-blowing. Maintaining sound oversight and control of activities through the use of internal audit reviews is considered by the committee to be a key element of its work.

The structure and resources of the internal audit function are also regularly reviewed. During 2010, PricewaterhouseCoopers carried out a review of the internal audit function at the request of the committee, the results of which were presented to the committee. The report concluded that the internal audit function was considered to have appropriate access to the chairman of the committee and the chief financial officer; the heads of internal audit were considered to be independent and objective; the function was appropriately resourced; and internal audit generally complied with all 11 International Internal Audit Standards.

DLC nominations committee

Members	Committee member since	DLC nominations committee (five meetings)
Colin Matthews	January 2008	5
Imogen Mkhize	January 2008	5
John Nicholas	October 2009	5
Anne Quinn	May 2007	5
Cyril Ramaphosa	May 2007	5
David Williams (chairman)	May 2007	5

The DLC nominations committee operates on a Group–wide basis. The committee meets periodically as required to discharge its duties, but a minimum of twice per annum, and met five times during the year. The chief executive officer is invited to attend meetings and provides information to support the work of the committee.

The committee is responsible for making recommendations to the Boards on the composition of each board and committee and on retirements and appointments of additional and replacement directors. Ensuring that the required balance of skills, experience and knowledge are maintained. Whilst one of the joint chairmen chairs this committee, he is not permitted to chair meetings during discussions regarding his performance or when the appointment of a successor is being considered.

The committee implemented the board evaluation process that was externally facilitated in 2010 by Boardroom Review. The outcome of the review, as explained in more detail above, was considered by the committee and an action plan recommended to the Boards.

A number of regular matters were reviewed by the committee in accordance with its terms of reference. In particular, the succession planning was debated and consideration was given to the time commitment required from each director and those directors to stand for re-election at the annual general meetings. Having effected a change in the composition of the Boards and committees during the latter part of 2009, no further changes were deemed necessary in 2010.

A key area of consideration for the committee at the end of 2010 and for 2011 is non-executive director succession planning to ensure that the Boards have the appropriate skills and experience to continue to manage the challenges of the Group. With the majority of independent directors having been appointed in 2007 at the time of the demerger of Mondi from Anglo American plc, it is recognised that a clear succession plan enabling a smooth change of directors over time is required. This should ensure minimum disturbance to the stability and continuity of the Boards. Independent external search consultants will be engaged to assist with finding replacement directors in line with an agreed process.

Having considered the recent changes in governance best practice the committee has determined that all directors should stand for re-election at the next annual general meetings of Mondi Limited and Mondi plc. This recommendation was endorsed by the Boards.

DLC remuneration committee

Members	Committee member since	DLC remuneration committee (four meetings)
Colin Matthews	May 2007	4
Imogen Mkhize	May 2007	4
Anne Quinn (chairman)	May 2007	4
David Williams	May 2007	4

The DLC remuneration committee operates on a Group-wide basis. The committee met four times during the year and plans to meet three times in 2011 with additional meetings convened as required.

The committee has responsibility for making recommendations to each board on the Group's policy on the remuneration of senior management, for the determination, within agreed terms of reference, of the remuneration of the joint chairmen and of specific remuneration packages for each of the executive directors and members of senior management, including pension rights and any compensation payments. In addition, the committee is responsible for the implementation of employee share plans.

The committee's full report on directors' remuneration, including details of the Group's remuneration policies and practices, is set out on pages 58 to 66.

DLC sustainable development committee

Members	Committee member since	DLC sustainable development committee (six meetings)
David Hathorn	May 2007	6
Colin Matthews (chairman)	May 2007	6
Anne Quinn	August 2009	6

The DLC sustainable development committee operates on a Group-wide basis. The committee met six times during the year and plans to meet six times in 2011. The committee has responsibility for overseeing the Group's policy, targets and performance on safety, health, the environment, social responsibility, other sustainable development matters and business ethics.

During the year the committee reviewed the Group's key sustainable development policies, monitored performance against environmental targets, received detailed safety reports including details of major incidents within the Group and monitored the senior management's response to such incidents.

A summary report from the directors on the Group's sustainability practices is set out on pages 34 to 43 and further details, including a full review of Mondi's sustainability activities and progress in 2010, can be found on the Mondi Group website.

DLC executive committee

The DLC executive committee operates on a Group-wide basis. The members of the DLC executive committee are detailed on page 47. The committee is chaired by David Hathorn and met nine times during the year, with ten meetings scheduled for 2011.

The DLC executive committee is responsible for the day-to-day management of the Group and its business operations within the limits set by the Boards, with particular focus on financial, operational and safety performance, together with policy implementation in line with the Group's strategy agreed by the Boards.

Communication with shareholders

Ensuring that shareholders, be they institutional, private or employee shareholders, receive accurate and timely information about the Group's financial performance, operational and development activities, sufficient for them to make an informed judgement regarding their investments is considered by the Boards to be extremely important. To this end a variety of communication mechanisms are used, with the Mondi Group website providing a range of financial and business information about the Group, including an archive of past announcements and share price information as well as the Group's sustainability activities and practices.

During the year the chief executive officer and chief financial officer have continued a programme of regular dialogue with institutional shareholders, analysts and fund managers, based around the Group's financial reporting calendar. Investors are also regularly offered the opportunity to speak directly with the joint chairmen. Periodically site visits are arranged to help increase the knowledge and understanding of the Group. In November 2010, visits were arranged to Syktyvkar, Russia and Świecie, Poland where major capital expenditure projects were completed in September 2010 and September 2009, respectively. Summaries of the feedback from these discussions, meetings and site visits were presented to the Boards. The Boards also receive feedback directly from brokers and advisers which enables them to gain a clear understanding of the views and opinions of those interested in the Group. In addition, the Boards are supported by the Group corporate affairs manager. All contact with investors and other interested parties is strictly controlled through the application of Group guidelines to ensure that no price sensitive information is made available on a selective basis and that all shareholders are treated equally. Financial reports, trading updates and news about the business operations are available to all shareholders on the Mondi Group website.

The Group head of sustainable development maintains a dialogue on socially responsible investment through focused briefings with interested investors and stakeholders.

Throughout the year responses are given to letters and e-mails received from shareholders and other interested parties on a variety of subjects. Shareholders may choose to receive annual reports and other communications from the Group via electronic means, facilities are also available for the electronic submission of proxy votes for general meetings. Furthermore, shareholders can use the opportunity of the annual general meetings to question the directors about Mondi's activities and prospects.

Dealing in securities

The Boards have adopted a share dealing code for dealing in securities of Mondi Limited and Mondi plc which is based on regulatory and governance best practice. The code sets out the restrictions placed on directors, senior management and other key employees with regard to their share dealing to ensure that they do not abuse their access to information about the Group pending its public release and availability to shareholders and other interested parties. The code is reviewed regularly and updated as required to ensure continued compliance with regulation and best practice.

All dealings by directors and persons discharging managerial responsibilities and their connected persons are announced to the JSE Limited and the London Stock Exchange when they occur. Details of the directors' interests in the shares of both Mondi Limited and Mondi plc can be found in the remuneration report on pages 64 to 66.

Business ethics

The Boards have adopted a Code of Business Ethics, which applies throughout the Group and sets clear principles for the conduct of the Group's business activities. The code has five key elements, three of which are monitored and reviewed by the DLC sustainable development committee (human rights, stakeholders and sustainability) and the other two by the DLC audit committee (legal compliance and honesty and integrity). The directors believe that the Group has robust compliance systems and procedures in place in relation to the code. The directors are not aware of any material non-compliance with the code. The code is available on the Mondi Group website.

Annual general meetings

The annual general meetings of Mondi Limited and Mondi plc will be held on 5 May 2011 in Johannesburg and London respectively. It is expected that all directors and, in particular, the chairmen of the principal committees will be present.

Separate resolutions will be proposed for each item of business to be considered at the annual general meetings. All resolutions at the meetings will be voted on by taking polls, with the verified results announced as soon as practicable following the close of both meetings. The voting results will also be made available on the Mondi Group website.

The notices of the annual general meetings, which include explanations of each resolution, are contained in separate circulars which are being sent to all shareholders in advance of the meetings, in accordance with the corporate governance codes of South Africa and the UK.

Remuneration report

The following report has been prepared by the DLC remuneration committee and approved by the boards of Mondi Limited and Mondi plc (together 'the Boards'). Deloitte & Touche and Deloitte LLP have audited the following items stipulated in law for their review:

- the tables of executive directors' and non-executive directors' remuneration and associated footnotes on page 63;
- the table of pension contributions in respect of executive directors on page 63; and
- the table of share awards granted to executive directors and associated footnotes on pages 64 to 66.

The DLC remuneration committee

The DLC remuneration committee ('the Committee') is a formal committee of the Boards. Its remit is set out in terms of reference adopted by the Boards. A copy of the terms of reference is available on the Group's website at www.mondigroup.com. The primary purposes of the Committee, as set out in its terms of reference, are:

- to make recommendations to the Boards on the Group's framework of executive remuneration;
- to determine individual remuneration packages within that framework for the executive directors and certain senior executives;
- to determine the remuneration of the joint chairmen; and
- to oversee the operation of the Group's share schemes.

The members of the Committee since its establishment have been Anne Quinn (chairman of the Committee), Colin Matthews, Imogen Mkhize and David Williams, all of whom are independent non-executive directors. David Williams is joint chairman of Mondi Limited and Mondi plc and Anne Quinn is senior independent director. Philip Laubscher and Carol Hunt act as secretary to the Committee.

The Group head of reward, Paul Wessels, provides advice on remuneration policies and practices and is usually invited to attend meetings of the Committee, along with the chief executive officer. Joint chairmen who are not committee members are also invited to attend meetings.

No director or other attendee takes part in any discussion regarding his or her own remuneration.

The Committee is authorised to seek information from any director and employee of the Group and to obtain the advice of external advisers. The Committee is solely responsible for the appointment of external remuneration advisers and for the approval of their fees and other terms.

In the year to 31 December 2010, the following advisers provided services to the Committee:

- Hewitt New Bridge Street ('HNBS') - provision of remuneration advice and benchmarking data.
- Towers Watson – provision of remuneration benchmarking data.
- Linklaters LLP – provision of legal advice.

Remuneration policy

The Group's remuneration policy has been set with the objective of attracting, motivating and retaining high calibre directors, managers and employees in a manner that is consistent with best practice and aligned with the interests of the Group's shareholders.

Remuneration policy for executive directors and other senior managers is framed around the following key principles:

- remuneration packages should be set at levels that are competitive in the relevant market;
- the structure of remuneration packages and, in particular, the design of performance-based remuneration schemes, should be aligned with shareholders' interests and should support the achievement of the Group's business strategy and the management of risk;
- a significant proportion of the remuneration of executive directors and other senior executives should be performance-based;
- the performance-based element of remuneration should be appropriately balanced between the achievement of short-term objectives and longer-term objectives; and
- the remuneration of executive directors and other senior executives will be set taking appropriate account of remuneration and employment conditions elsewhere in the Group.

Executive directors' remuneration

The executive directors throughout the period under review were David Hathorn, Andrew King and Peter Oswald.

Remuneration packages for executive directors comprise the following elements:

- salary;
- participation in the Bonus Share Plan, which provides for an annual bonus payable half in cash and half in deferred shares;
- participation in the Long-Term Incentive Plan;
- pension contributions; and
- car or car allowance and non-cash benefits.

Salary

Salaries are reviewed annually, normally with effect from 1 January, and are targeted broadly at the median position in the relevant market. The Committee has regard principally to companies in the UK market which have a similar size, complexity and international scope to the Group, but also has regard to international peers of the Group in the paper and packaging sector. The Committee also takes into account business performance, salary practices prevailing for other employees in the Group and, when setting individual salaries, the individual's performance and experience in the role. Salary practices prevailing for other employees in the Group are taken into account through the consideration of data provided to the Committee annually by the Group head of reward.

The Committee very carefully considers executive salary increases, and is sensitive to the need to ensure that any increases are clearly justified. None of the executive directors received a salary increase for 2009 and only one, Andrew King (chief financial officer), received one for 2010. The 2010 increase for Andrew King was to reflect his increasing experience and strong performance in the role, and moved his salary to the market median for chief financial officers in comparable companies. Current salary levels are disclosed under the executive director remuneration table presented on page 63. Andrew King's salary has been increased from €501,068 (£430,000) to €524,374 (£450,000) (4.65%) with effect from 1 January 2011 to reflect his performance and increasing experience in the role of chief financial officer. David Hathorn's salary has been increased from €903,088 (£775,000) to €932,220 (£800,000) (3.23%) and Peter Oswald's from €800,000 to €824,000 (3%). These increases compare with overall increases of approximately 3% awarded to Mondi employees in Europe and 7% in South Africa. Executive directors' salaries will next be reviewed with effect from 1 January 2012.

Bonus Share Plan

Both Mondi Limited and Mondi plc operate Bonus Share Plans (together 'the BSP'). The BSP is the annual bonus plan operated by the Group for executive directors and other senior executives. Under the BSP, bonuses are awarded against achievement of corporate and individual targets. Half the bonus awarded is paid immediately in cash and half is paid in deferred shares which vest after three years subject to the executive remaining in the Group's service.

The maximum bonus eligibility of the executive directors continues to be 150% of salary in the case of David Hathorn and 120% of salary in the case of Andrew King and Peter Oswald.

For 2010, the bonus for executive directors was based 60% on Group financial performance, measured in terms of ROCE and EBITDA, 10% on Group safety performance and 30% on personal performance targets. The personal performance objectives are set following a rigorous process involving the chief executive, joint chairmen and the Committee. Of the 30% of bonus opportunity related to personal performance, 10 percentage points are related to excellence in people management and leadership, which includes such items as development and succession of talent. The remaining 20 percentage points are related to divisional financial targets such as sales and profit growth, cost reductions and management of working capital, and operational targets such as productivity growth, rationalisation of production capacity, maximising return from capital projects and ensuring that acquisitions are successfully integrated.

The outcome for 2010 was that the maximum 60% of bonus potential was earned in relation to Group financial performance. This reflects the much improved performance from the Mondi Group in the 2010 financial year including ROCE of 12.3%, 4.7% higher than the prior year, and a 37% increase in EBITDA. Half of the 10% of bonus potential was earned in relation to safety performance. Details of the bonus amounts awarded are presented on page 63.

Half of the bonus earned is deferred for three years in Mondi shares, to help reinforce the alignment with sustained value creation for shareholders. With effect from the 2011 performance year, clawback provisions have been introduced that apply in the exceptional event of a bonus paid on the basis of misstatement of results.

For 2011, the existing bonus structure will be retained.

Long-Term Incentive Plan

Both Mondi Limited and Mondi plc operate Long-Term Incentive Plans (together 'the LTIP'). Executive directors and other senior executives are eligible to participate in the LTIP, under which awards are made of conditional shares which vest after three years, subject to the achievement of demanding performance conditions and to continued service.

The maximum annual award that can be made to any LTIP participant in any year is equal to two times salary. For 2010, the award made to David Hathorn was 175% of salary and the awards made to Andrew King and Peter Oswald were 120% of salary. It is currently intended to continue to make annual awards at these levels.

For the LTIP awards made in 2010, the performance conditions are based on two performance measures of equal weight – TSR and ROCE, measured over a three-year performance period ending on 31 December 2012. The Committee believes that this combination of targets provides an appropriate means of aligning the operation of the LTIP with shareholders' interests and the Group's business strategy.

Remuneration report continued

The TSR performance condition is based on the Group's TSR relative to a group of competitor companies. For the 2008, 2009 and 2010 LTIP awards, the following group of companies was selected:

Billerud	Norske Skog
David S Smith	Portucel
Holmen	Sappi
International Paper	SCA
Mayr-Melnhof	Smurfit Kappa
MeadWestvaco	Stora Enso
M-Real	UPM
Domtar (2010)[1]	Weyerhauser (2008 and 2009)[1]

1 As was reported in the 2009 remuneration report Weyerhauser was replaced with Domtar in 2010 as its business structure is considered closer to Mondi's.

For the 50% of awards attributable to TSR: If the Group's TSR is below the median when ranked against the comparator group, this part of the award will lapse in full. For TSR at the median, 25% of this part of the award (i.e. 12.5% of the total award) will vest, with a straight-line progression to the upper quartile, at which point 100% of this part of the award (i.e. 50% of the total award) will vest in full.

For the 50% of awards attributable to ROCE: This part will lapse in full if ROCE is below 7%. 25% of this part of an award (i.e. 12.5% of the total award) will vest for achievement of ROCE of 7%, with a straight-line progression to full vesting of this part of the award for achievement of ROCE of 13% (i.e. 50% of the total award).

The Committee retains discretion to vary the performance conditions applicable to the awards, if it concludes that events have occurred which would make such a variation necessary or desirable or would make the amended performance conditions a fairer measure of performance.

No re-testing of performance is permitted for any element of the awards that does not vest at the end of the performance period and all such elements lapse.

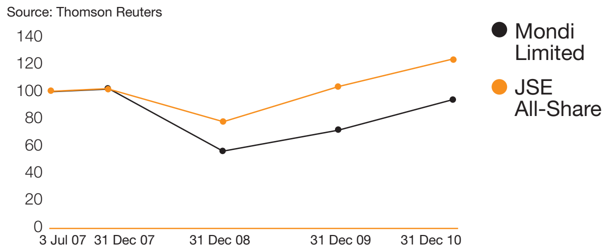
The Committee intends to retain these performance conditions for the LTIP awards to be made in 2011. The Committee aims to align the level of challenge in the performance conditions with the development of the business. The Committee has therefore significantly increased the performance requirement for the ROCE component of the LTIP (representing 50% of the total award) for awards made in 2011. The minimum ROCE requirement will be 10% (previously 7%) and the ROCE required for full vesting will be 14% (previously 13%).

The LTIP awards that were made in 2007, with a three-year performance period that ended on 31 December 2009, were reviewed by the Committee in February 2010 against the performance conditions. Based on TSR, ROCE and EPS growth, the three equally weighted performance conditions for these awards, 11.5% of the number of shares under award vested in March 2010 and the balance of 88.5% lapsed. The portion of awards attributable to ROCE and EPS growth lapsed in their entirety. 34.5% of the portion attributable to TSR vested and the balance lapsed.

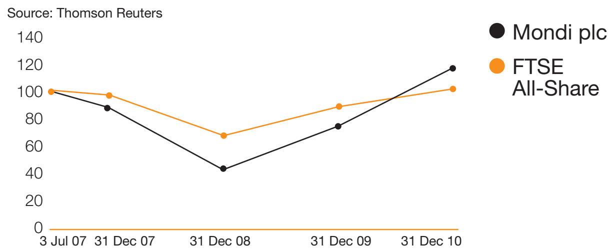
Performance graph

The following graphs set out the comparative TSR of Mondi Limited relative to the JSE All-Share Index and Mondi plc relative to the FTSE All-Share Index for the period between 3 July 2007 and 31 December 2010, those indices having been chosen because they are broad equity market indices of which Mondi Limited and Mondi plc respectively are members:

TSR graph of Mondi Limited and JSE All-Share Index



TSR graph of Mondi plc and FTSE All-Share Index



Pension contributions

The executive directors are eligible to participate in defined contribution pension arrangements and to payment by the Group of a pension contribution of 30% of salary, in the case of David Hathorn, and 25% of salary, in the case of Andrew King and Peter Oswald, or to receive a cash alternative of equivalent cost to the Group. No element of remuneration is pensionable other than basic salary.

Car or car allowance and non-cash benefits

The executive directors are entitled to receive a car allowance (in the case of David Hathorn and Andrew King), or to have a fully expensed car provided (in the case of

Peter Oswald). The executive directors also benefit from death in service cover and a limited amount of personal tax and financial planning advice. David Hathorn and Andrew King are members of the Mondi medical plan in South Africa, in which the Group's South African employees participate on a continuing basis.

Andrew King's family relocated from the UK to South Africa when he took up his position as chief financial officer. The Group pays for one return flight to the UK per annum for his accompanying family.

Discretionary Share Option Plan

In addition to the LTIP and BSP, Mondi Limited and Mondi plc have both adopted Discretionary Share Option Plans. No grants have been made under these plans and there is no current intention to make such grants.

All-employee share plans

The Group currently operates two HM Revenue & Customs approved all-employee share plans in the UK:

Share Incentive Plan ('SIP')

Employees resident in the UK are eligible to participate in the SIP. Contributions of up to £125 are taken from participants' gross salary and used to purchase ordinary shares in Mondi plc each month. Participants receive one matching Mondi plc ordinary share free of charge for each share purchased. The shares are placed in trust and the matching shares are forfeited if participants resign from the Group's employment within three years. If the shares are left in trust for at least five years, they can be removed free of UK income tax and National Insurance contributions.

Sharesave

Employees resident in the UK are also eligible to participate in a Sharesave scheme when offered. Participants enter into a savings contract under which they choose to save a fixed amount of between £5 and £250 per month by deduction from their salary. They are granted an option to acquire Mondi plc shares to the value of their savings at a specified price. In normal circumstances the option can only be exercised during the six months following the end of the savings contract.

Eligible executive directors are permitted to participate in both the SIP and Sharesave and details of their participation are presented on page 66.

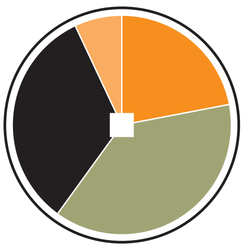
Split of executive directors' remuneration

The split of executive directors' remuneration between salary and other fixed remuneration, short-term variable remuneration and long-term variable remuneration is as follows:

Expected values (CEO)

Salary	31%
LTIP	27%
BSP	33%
Pension	9%

Maximum values (CEO)

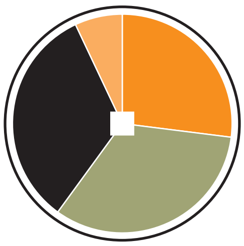


Salary	22%
LTIP	38%
BSP	33%
Pension	7%

Expected values (Executive director)

Salary	38%
LTIP	22%
BSP	31%
Pension	9%

Maximum values (Executive director)



Salary	27%
LTIP	33%
BSP	33%
Pension	7%

1 BSP awards are paid half in cash and half in deferred shares, as described above.

Remuneration report continued

Executive directors' service contracts

David Hathorn and Andrew King are employed under service contracts with both Mondi Limited and Mondi plc. Peter Oswald is employed in Austria under a service contract with Mondi Services AG.

The Group's policy is that executive directors' service contracts should provide for one year's notice by either party, except where a longer notice period is appropriate as a transitional measure, in which case the notice period would reduce automatically to one year within a reasonable period of time.

The service contracts for David Hathorn and Andrew King provide for one year's notice by either party.

The service contract for Peter Oswald is required under Austrian law to be for a fixed period, which expires on 30 April 2013. However, the contract has been structured in such a manner that it can be terminated on one year's notice by either party.

In the event of early termination of service contracts, the Group's policy is to act fairly in all the circumstances. The duty to mitigate is taken into account and the Group has due regard to the requirements of legislation, regulation and good governance.

The service contracts for David Hathorn and Andrew King contain pay in lieu of notice provisions which may be invoked at the discretion of the Group. The payment in lieu of notice would comprise salary, car allowance and pension contributions for the notice period and an amount in respect of the bonus for that part of the financial year worked.

The service contract for Peter Oswald does not contain a pay in lieu of notice provision. The contract provides, in addition to such other rights as he may have on termination of the contract by his employer other than for cause, for a payment which reflects an entitlement he had in Austrian law under his previous service contract.

Non-executive directors' remuneration

The remuneration of the joint chairmen is determined by the Committee and the remuneration of the other non-executive directors is determined by the joint chairmen and the executive directors.

The remuneration of the joint chairmen comprises a fee of €291,319 (£250,000) per annum with no supplement for their additional commitments.

The other non-executive directors receive an annual fee of €46,611 (£40,000), along with an attendance fee of €5,826 (£5,000) for each board meeting held outside their country of residence and €1,748 (£1,500) for each day on which they attend board meetings in their country of residence.

Anne Quinn, as the senior independent director and DLC remuneration committee chairman, receives an additional annual fee of €17,479 (£15,000). John Nicholas, as the DLC audit committee chairman, receives an additional annual fee of €11,653 (£10,000). Colin Matthews, as the DLC sustainable development committee chairman, receives an additional annual fee of €9,322 (£8,000).

The joint chairmen and the other non-executive directors are appointed by Mondi Limited and Mondi plc. The terms of their appointment provide for the appointment to be terminable on six months' notice.

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 notice period expiring on 30 April 2013 but terminable at any time on 12 months' notice

Remuneration for the year ended 31 December 2010

Executive directors' remuneration

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

		Salary[1]	Annual cash bonus	Value of deferred shares awarded	Other cash benefits	Non-cash benefits	Total
David Hathorn	2010	€903,629	€602,812	€602,812	€28,100	€19,123	€2,156,476
	2009	€867,115	€538,799	€538,799	€26,964	€18,023	€1,989,700
Andrew King	2010	€501,368	€264,564	€264,564	€22,504	€23,639	€1,076,639
	2009	€447,543	€221,124	€221,124	€21,594	€14,291	€925,676
Peter Oswald	2010	€800,000	€427,200	€427,200	€255	€36,104	€1,690,759
	2009	€800,000	€393,600	€393,600	€255	€34,913	€1,622,368

1 The salaries of David Hathorn (£775,000) and Peter Oswald (€800,000) remained constant in local currency terms from 2009 to 2010.

Non-executive directors' remuneration

	2010			2009		
	Fees	Other benefits	Total	Fees	Other benefits	Total
Cyril Ramaphosa[1]	€292,387	–	€292,387	€356,641	–	€356,641
David Williams[2]	€292,387	–	€292,387	€175,565	–	€175,565
Colin Matthews	€90,726	–	€90,726	€90,957	–	€90,957
Imogen Mkhize	€74,435	–	€74,435	€71,155	–	€71,155
John Nicholas[3]	€93,065	–	€93,065	€25,354	–	€25,354
Anne Quinn	€98,913	–	€98,913	€94,117	–	€94,117

1 For 2009, the fee paid to Cyril Ramaphosa was capped at €466,110 (£400,000) in accordance with the arrangements then in force.

2 For 2009, the fee paid to David Williams was, until 4 August 2009, determined on the basis described on page 62 for non-executive directors and, from 5 August 2009, with reference to the arrangements for joint chairmen.

3 For 2009, the fee paid to John Nicholas covers the period from his appointment on 2 October 2009 until 31 December 2009.

Pension contributions in respect of executive directors

The executive directors all participate in defined contribution pension schemes under arrangements established by the Group. The contributions paid by the Group in respect of the years 2010 and 2009 are:

	Group contribution	
	2010	2009
David Hathorn	€271,089	€261,236
Andrew King	€125,418	€112,360
Peter Oswald	€200,000	€200,000

Remuneration report continued

Directors' beneficial share interests

The beneficial share interests of the directors and their connected persons as at 1 January 2010 or, if later, on appointment, and as at 31 December 2010 were as follows:

	1 January 2010	31 December 2010
Mondi Limited		
David Hathorn	1,066	558
Andrew King	802	802
Imogen Mkhize	4,000	4,000
Total	5,868	5,360
Mondi plc		
Cyril Ramaphosa	7,050	7,050
David Williams	5,000	5,000
David Hathorn	493,107	250,437
Andrew King	110,026	92,059
Colin Matthews	5,825	5,825
Imogen Mkhize	–	2,000
John Nicholas	6,000	6,000
Peter Oswald	201,889	140,000
Anne Quinn	11,882	11,882
Total	840,779	520,253

There has been no change in the interests of the directors and their connected persons between 31 December 2010 and the date of this report.

Sums paid to third parties in respect of a director's services

No consideration was paid or became receivable by third parties for making available the services of any person as a director of Mondi Limited or Mondi plc ('the Companies'), or while a director of the Companies, as a director of any of the Companies' subsidiary undertakings, or as a director of any other undertaking of which he/she was (while a director of the Companies) a director by virtue of the Companies' nomination, or otherwise in connection with the management of the Companies or any undertaking during the year to 31 December 2010.

Share awards granted to executive directors

The following tables set out the share awards granted to the executive directors.

Mondi Limited

	Type of award [1,2]	Awards held at beginning of year or on appointment to the Boards	Awards granted during year	Shares lapsed	Awards exercised during year	Award price basis (ZAc)	Date of award	Awards held as at 31 December 2010	Release date
David Hathorn	BSP	35,156	–	–	–	6547	Mar 08	35,156	Mar 11
	BSP	38,122	–	–	–	2301	Mar 09	38,122	Mar 12
	BSP	–	37,347	–	–	4596	Mar 10	37,347	Mar 13
	LTIP	84,336	–	74,665	9,671	6423	Aug 07	–	Mar 10
	LTIP	95,308	–	–	–	6547	Mar 08	95,308	Mar 11
	LTIP	256,070	–	–	–	2301	Mar 09	256,070	Mar 12
	LTIP	–	105,628	–	–	4596	Mar 10	105,628	Mar 13
Andrew King	BSP	15,741	–	–	–	2301	Mar 09	15,741	Mar 12
	BSP	–	15,328	–	–	4596	Mar 10	15,328	Mar 13
	LTIP	90,628	–	–	–	2301	Mar 09	90,628	Mar 12
	LTIP	–	40,188	–	–	4596	Mar 10	40,188	Mar 13

For notes 1 and 2 please refer to the table on page 65.

Mondi plc

	Type of award 1,2	Awards held at beginning of year or on appointment to the Boards	Awards granted during year	Shares lapsed	Awards exercised during year	Award price basis (GBp)	Date of award	Awards held as at 31 December 2010	Release date
David Hathorn	BSP	59,677	–	–	59,677	464	Aug 07	–	Mar 10
	BSP	88,877	–	–	–	394	Mar 08	88,877	Mar 11
	BSP	110,393	–	–	–	129	Mar 09	110,393	Mar 12
	BSP	–	89,752	–	–	374	Mar 10	89,752	Mar 13
	LTIP	191,407	–	169,458	21,949	464	Aug 07	–	Mar 10
	LTIP	240,959	–	–	–	394	Mar 08	240,959	Mar 11
	LTIP	735,950	–	–	–	129	Mar 09	735,950	Mar 12
	LTIP	–	253,844	–	–	374	Mar 10	253,844	Mar 13
	Co-Investment4	538,795	–	–	–	464	Aug 07	538,795	Jul 11
Andrew King	BSP	13,012	–	–	13,012	464	Aug 07	–	Mar 10
	BSP	35,026	–	–	–	394	Mar 08	35,026	Mar 11
	BSP	45,582	–	–	–	129	Mar 09	45,582	Mar 12
	BSP	–	36,835	–	–	374	Mar 10	36,835	Mar 13
	LTIP	64,656	–	57,242	7,414	464	Aug 07	–	Mar 10
	LTIP	98,985	–	–	–	394	Mar 08	98,985	Mar 11
	LTIP	260,465	–	–	–	129	Mar 09	260,465	Mar 12
	LTIP	–	96,578	–	–	374	Mar 10	96,578	Mar 13
Peter Oswald	BSP	39,707	–	–	39,707	464	Aug 07	–	Mar 10
	BSP	67,803	–	–	–	394	Mar 08	67,803	Mar 11
	BSP	115,923	–	–	–	129	Mar 09	115,923	Mar 12
	BSP	–	92,683	–	–	374	Mar 10	92,683	Mar 13
	LTIP	111,605	–	98,807	12,798	464	Aug 07	–	Mar 10
	LTIP	186,270	–	–	–	394	Mar 08	186,270	Mar 11
	LTIP	662,417	–	–	–	129	Mar 09	662,417	Mar 12
	LTIP	–	226,055	–	–	374	Mar 10	226,055	Mar 13

1 Awards granted in 2008 under the LTIP are subject to the following performance conditions.

For the one-third of awards attributable to TSR: if the Group's TSR is below the median when ranked against the comparator group, this part of the award will lapse in full. For TSR at the median, 25% of this part of the award (i.e. 8.33% of the total award) will vest, with a straight-line progression to the upper quartile, at which point 100% of this part of the award (i.e. 33.33% of the total award) will vest in full. The TSR comparator group is set out on page 60.

For the one-third of awards attributable to EPS: this part will lapse in full if compound annual EPS is below 7%. 30% of this part of the award (i.e. 10% of the total award) will vest for achievement of compound annual EPS of 7%, with a straight-line progression to full vesting of this part of the award for achievement of compound annual EPS of 13% (i.e. 33.33% of the total award).

For the one-third of awards attributable to ROCE: this part will lapse in full if ROCE is below 10%. 30% of this part of the award (i.e. 10% of the total award) will vest for achievement of ROCE of 10%, with a straight-line progression to full vesting of this part of the award for achievement of ROCE of 13% (i.e. 33.33% of the total award).

2 The value on award of the BSP awards set out in this table is included in the table of executive directors' remuneration on page 63.

3 In addition to the number of shares that vested as shown in the table above in respect of the BSP, the executive directors also received the following cash amounts of equivalent value to dividends on vested shares over the vesting period, in accordance with the plan rules:

Name	Amount
David Hathorn	€20,110.58 (£18,013.25)
Andrew King	€4,348.92 (£3,927.62)
Peter Oswald	€15,168.07

4 In addition to the LTIP and BSP, which are schemes that the Group intends to operate on a continuing basis, David Hathorn participates in a one-off share award under a Co-Investment Plan ('the Plan') arising from the circumstances of the Group's demerger from Anglo American plc in 2007. Under the Plan he made an investment of £1,000,000 from his own funds in Mondi plc shares ('the investment shares') in August 2007. Under the terms of the Plan, provided he retains his investment shares and remains in the Group's employment, he is entitled to receive matching Mondi plc shares based on achievement against a performance condition measured over a four year period from July 2007. The performance condition will measure the Group's TSR relative to the group of industry competitors consistent with the 2007, 2008, 2009 and 2010 LTIP awards. The Committee determined that a TSR performance condition was appropriate for the Plan to ensure alignment with shareholders' interests. For performance up to the median, David will be eligible to receive a match of 50% of the number of investment shares. For performance at the upper quintile or above, he will be eligible to receive a match of 250% of the number of investment shares, with a straight-line progression applying for performance between the median and the upper quintile.

Remuneration report continued

Sharesave

Executive directors held the following options over Mondi plc ordinary shares under the Mondi Sharesave Option Plan.

	Awards held at beginning of year or on appointment to the Boards	Awards granted during year	Awards lapsed during year	Exercise price per share (GBp)	Date of award	Awards held as at 31 December 2010	Exercise period
David Hathorn	15,808	–	–	99	Mar 09	15,808	1 May 14 – 31 Oct 14
Andrew King	15,808	–	–	99	Mar 09	15,808	1 May 14 – 31 Oct 14

Share Incentive Plan

Details of shares purchased and awarded to executive directors in accordance with the terms of the Share Incentive Plan.

	Shares held at beginning of year or on appointment to the Boards	Partnership shares acquired during year	Matching shares awarded during year	Shares released during year	Total share held as at 31 December 2010
David Hathorn	1,992	344	344	–	2,680
Andrew King	2,436	344	344	–	3,124

[1] Since 1 January 2011 up to the date of this report, David Hathorn has acquired 49 partnership shares and was awarded 49 matching shares. Andrew King acquired 48 partnership shares and was awarded 48 matching shares.

Mondi Limited and Mondi plc share prices

The closing price of a Mondi Limited ordinary share on the JSE Limited on 31 December 2010 was R53.80 and the range during the period between 1 January 2010 and 31 December 2010 was R42.00 (low) and R60.77 (high).

The closing price of a Mondi plc ordinary share on the London Stock Exchange on 31 December 2010 was 513.5p and the range during the period between 1 January 2010 and 31 December 2010 was 335.0p (low) to 557.5p (high).

This report was approved by the Boards on 18 February 2011 and is signed on their behalf.

Anne C Quinn
Non-executive director and chairman of the DLC remuneration committee

Additional disclosures

Policy and practice on payment to creditors

Mondi applies a policy of agreeing the payment terms as part of the commercial arrangements negotiated with suppliers. Once agreed, Mondi aims to pay in accordance with these payment terms.

The Group had 70 days' purchases outstanding at 31 December 2010 (74 days at 31 December 2009), based on the average daily amount invoiced by suppliers.

Share capital

Full details of the Group's share capital can be found in note 27 to the financial statements.

Essential contractual arrangements

Certain Group companies are party to the €1.55 billion, five year syndicated revolving credit facility which the Boards consider essential to the business of the Group. Ten banks participate in the facility, these being: Bank Austria Creditanstalt AG; Barclays Capital; Citigroup Global Markets Limited; Deutsche Bank AG, London Branch; BNP Paribas; Fortis Bank S.A./N.V., UK Branch; Lloyds TSB Bank plc; The Royal Bank of Scotland plc; Raiffeisen Zentralbank Oesterreich Aktiengesellschaft and Société Générale.

Substantial interests

At the date of this report, the Group had received notifications from the following parties in the voting rights of Mondi Limited and Mondi plc. The number of shares and percentage interests shown are as disclosed at the date on which the holding was notified.

Auditors

Each of the directors of Mondi Limited and Mondi plc at the date when this report was approved confirms that:

- so far as each of the directors is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Deloitte & Touche and Deloitte LLP (together 'Deloitte') have indicated their willingness to continue as auditors of Mondi Limited and Mondi plc respectively. The Boards have decided that resolutions to reappoint them will be proposed at the annual general meetings of Mondi Limited and Mondi plc scheduled to be held on 5 May 2011.

The reappointment of Deloitte has the support of the DLC audit committee, which will be responsible for determining their audit fee on behalf of the directors.

Note 3 to the financial statements sets out the auditors' fees both for audit and non-audit work.

Events occurring after 31 December 2010

With the exception of the proposed final dividend for 2010, included in note 10 to the financial statements, there have been no material reportable events since 31 December 2010.

Mondi Limited

No notifications received.

Mondi plc

Name	Shares	%
Investec Asset Management (Proprietary) Limited	18,579,968	5.06
Allan Gray Unit Trust Management Limited	18,324,760	5.00
Standard Life Investments Limited	18,286,388	4.98
AXA S.A.	17,210,471	4.69
Capital Research and Management Company	16,589,857	4.52
Legal & General Assurance (Pensions Management) Limited	14,478,309	3.94
Tarl Investment Holdings Limited	12,987,806	3.54
Prudential plc	12,161,022	3.31
Capital Group International Inc	11,587,910	3.16
Sanlam Investment Management (Proprietary) Limited	10,936,128	3.00

Additional disclosures continued

Additional information for Mondi plc shareholders

The information for Mondi plc shareholders required pursuant to the UK Companies Act 2006 can be found on pages 160 to 163 of this report.

Annual general meetings

The annual general meeting of Mondi Limited will be held at 12.00 (SA time) on Thursday 5 May 2011 at the Hyatt Regency, 191 Oxford Road, Rosebank, Johannesburg 2132, Republic of South Africa and the annual general meeting of Mondi plc will be held at 11.00 (UK time) on Thursday 5 May 2011 at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ, UK. The notices convening each meeting, which are sent separately to shareholders, detail the business to be considered and include explanatory notes for each resolution. The notices are available on the Group's website at: www.mondigroup.com.

By order of the Boards

Philip Laubscher

Company secretary

Mondi Limited
4th Floor, No. 3 Melrose Boulevard
Melrose Arch 2196
PostNet Suite #444
Private Bag X1
Melrose Arch 2076
Gauteng
Republic of South Africa

Registered No. 1967/013038/06
18 February 2011

Carol Hunt

Company secretary

Mondi plc
Building 1, 1st Floor
Aviator Park
Station Road
Addlestone
Surrey
KT15 2PG
UK

Registered No. 6209386
18 February 2011

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Financial statements

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Directors' responsibility statement

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

UK and South African company law requires the directors to prepare financial statements for each financial year.

- Under the UK Companies Act 2006, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the Mondi plc parent company financial statement in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Furthermore, under UK company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.
- Under the Companies Act of South Africa, the directors are required to prepare financial statements for each financial year giving a true and fair view of the Mondi Limited parent company's and the Group's state of affairs at the end of the year and profit or loss for the year. The directors have prepared the company's financial statements and the Group's financial statements in accordance with International Financial Reporting Standards (IFRS).

In preparing the Group's financial statements and the Mondi Limited parent company financial statements, International Accounting Standard 1, 'Presentation of Financial Statements', requires that the directors:

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

In preparing the Mondi plc parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and company's transactions; disclose with reasonable accuracy at any time the financial position of the Group and company; and enable them to ensure that the financial statements comply with the UK Companies Act 2006. They are also responsible for safeguarding the assets of the Group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report on the financial statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of Mondi Limited, Mondi plc and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair view of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

David Hathorn
Director

18 February 2011

Andrew King
Director

18 February 2011

Independent auditors' report to the members of Mondi Limited

Report on the financial statements

We have audited the Group annual financial statements of Mondi Limited for the year ended 31 December 2010 which comprise the combined and consolidated statement of financial position as at 31 December 2010, the combined and consolidated income statement, the combined and consolidated statement of comprehensive income, the combined and consolidated statement of cash flows and the combined and consolidated statement of changes in equity for the year then ended, the summary of significant accounting policies and the explanatory notes 1 to 40.

Directors' responsibility for the financial statements

The Group's directors are responsible for the preparation and fair presentation of these combined and consolidated financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, 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 Group 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 whether the combined and consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined and consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the combined and consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and presentation of the combined and consolidated 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 Group'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 combined and consolidated 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, the Group financial statements present, in all material respects, the combined and consolidated financial position of the Mondi Group as at 31 December 2010, and of its combined and consolidated financial performance and its combined and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Bronwyn Kilpatrick
Partner
Sandton
18 February 2011

Deloitte & Touche
Registered Auditors
Building 33, Deloitte Place, The Woodlands
Woodlands Drive, Woodmead, Sandton
Republic of South Africa

National Executive **GG Gelink** Chief Executive **AE Swiegers** Chief Operating Officer **GM Pinnock** Audit **DL Kennedy** Risk Advisory **NB Kader** Tax & Legal Services **L Geeringh** Consulting **L Bam** Corporate Finance **JK Mazzocco** Human Resources **CR Beukman** Finance **TJ Brown** Clients & Markets **NT Mtoba** Chairman of the Board **MJ Comber** Deputy Chairman of the Board.

A full list of partners and directors is available on request.

B-BBEE rating: Level 2 contributor/AAA (certified by Empowerdex)

Member of Deloitte Touche Tohmatsu Limited

Independent auditor's report to the members of Mondi plc

Report on the financial statements

We have audited the Group annual financial statements of Mondi plc for the year ended 31 December 2010 which comprise the combined and consolidated statement of financial position as at 31 December 2010, the combined and consolidated income statement, the combined and consolidated statement of comprehensive income, the combined and consolidated statement of cash flows and the combined and consolidated statement of changes in equity and the related notes 1 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the UK Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibility statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the combined and consolidated financial statements sufficient to give reasonable assurance that the combined and consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the UK Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the UK Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the combined and consolidated financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the UK Companies Act 2006 we are required to report to you if, in our opinion:
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the LSE Listing Rules we are required to review:
- the directors' statement contained within the business review in relation to going concern;
- the part of the corporate governance report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of Mondi plc for the year ended 31 December 2010 and on the information in the directors' remuneration report that is described as having been audited.

Panos Kakoullis, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

18 February 2011

Combined and consolidated income statement

for the year ended 31 December 2010

€ million	Notes	2010 Before special items	2010 Special items (note 5)	2010 After special items	2009 Before special items	2009 Special items (note 5)	2009 After special items
Group revenue	2	**6,228**	**–**	**6,228**	5,257	–	5,257
Materials, energy and consumables used		(3,322)	–	(3,322)	(2,768)	–	(2,768)
Variable selling expenses		(548)	–	(548)	(472)	–	(472)
Gross margin		**2,358**	**–**	**2,358**	2,017	–	2,017
Maintenance and other indirect expenses		(298)	–	(298)	(241)	–	(241)
Personnel costs	4	(931)	(23)	(954)	(838)	(24)	(862)
Other net operating expenses		(247)	50	(197)	(293)	(14)	(307)
Depreciation, amortisation and impairments		(373)	(24)	(397)	(351)	(90)	(441)
Operating profit/(loss)	2/3	**509**	**3**	**512**	294	(128)	166
Non-operating special items	5	–	(25)	(25)	–	(5)	(5)
Net income from associates	14	2	–	2	2	–	2
Total profit/(loss) from operations and associates		**511**	**(22)**	**489**	296	(133)	163
Net finance costs	6	**(117)**	**–**	**(117)**	(114)	–	(114)
Investment income		35	–	35	27	–	27
Foreign currency gains/(losses)		8	–	8	(1)	–	(1)
Financing costs		(160)	–	(160)	(140)	–	(140)
Profit/(loss) before tax		**394**	**(22)**	**372**	182	(133)	49
Tax (charge)/credit	8	(93)	6	(87)	(58)	6	(52)
Profit/(loss) from continuing operations		**301**	**(16)**	**285**	124	(127)	(3)
Attributable to:							
Non-controlling interests		**62**	**(1)**	**61**	29	1	30
Equity holders of the parent companies		**239**	**(15)**	**224**	95	(128)	(33)

Earnings per share (EPS) for profit/(loss) attributable to equity holders of the parent companies

		Notes	2010	2009
Basic EPS	(€ cents)	9	**44.1**	(6.5)
Diluted EPS	(€ cents)	9	**43.6**	(6.5)
Basic underlying EPS	(€ cents)	9	**47.0**	18.7
Diluted underlying EPS	(€ cents)	9	**46.5**	18.2
Basic headline EPS	(€ cents)	9	**47.0**	11.4
Diluted headline EPS	(€ cents)	9	**46.5**	11.1

Combined and consolidated statement of comprehensive income

for the year ended 31 December 2010

€ million	Notes	2010	2009
Profit/(loss) for the financial year		**285**	(3)
Other comprehensive income:			
Effect of cash flow hedges	25	11	26
Actuarial (losses)/gains and surplus restriction on post-retirement benefit schemes	25	(18)	7
Effect of available-for-sale investments	25	–	1
Exchange differences on translation of foreign operations	25	193	118
Share of other comprehensive income of associates	25	1	1
Tax relating to components of other comprehensive income	25	4	(7)
Other comprehensive income for the financial year, net of tax	25	**191**	146
Total comprehensive income for the financial year		**476**	143
Attributable to:			
Non-controlling interests		**75**	39
Equity holders of the parent companies		**401**	104

Combined and consolidated statement of financial position

as at 31 December 2010

€ million	Notes	**2010**	2009
Intangible assets	11	312	308
Property, plant and equipment	12	3,976	3,847
Forestry assets	13	320	251
Investments in associates	14	16	6
Financial asset investments	16	34	27
Deferred tax assets	23	21	29
Retirement benefits surplus	24	11	8
Derivative financial instruments	21	3	–
Total non-current assets		**4,693**	4,476
Inventories	17	702	617
Trade and other receivables	18	992	933
Current tax assets		11	16
Cash and cash equivalents		83	123
Derivative financial instruments	21	11	7
Total current assets		**1,799**	1,696
Assets held for sale	31	1	36
Total assets		**6,493**	6,208
Short-term borrowings	20	(410)	(219)
Trade and other payables	19	(1,034)	(1,023)
Current tax liabilities		(78)	(55)
Provisions	22	(64)	(40)
Derivative financial instruments	21	(9)	(32)
Total current liabilities		**(1,595)**	(1,369)
Medium and long-term borrowings	20	(1,037)	(1,421)
Retirement benefits obligation	24	(211)	(184)
Deferred tax liabilities	23	(349)	(316)
Provisions	22	(39)	(45)
Other non-current liabilities		(23)	(21)
Derivative financial instruments	21	(15)	(19)
Total non-current liabilities		**(1,674)**	(2,006)
Liabilities directly associated with assets classified as held for sale	31	–	(9)
Total liabilities		**(3,269)**	(3,384)
Net assets		**3,224**	2,824
Equity			
Ordinary share capital	27	114	114
Share premium	27	532	532
Retained earnings and other reserves		2,117	1,753
Total attributable to equity holders of the parent companies		**2,763**	2,399
Non-controlling interests in equity		461	425
Total equity		**3,224**	2,824

The Group's combined and consolidated financial statements, and related notes 1 to 40, were approved by the Boards and authorised for issue on 18 February 2011 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

Mondi Limited company registration number: 1967/013038/06
Mondi plc company registration number: 6209386

Combined and consolidated statement of cash flows

for the year ended 31 December 2010

€ million	Notes	2010	2009
Cash generated from operations	32a	778	867
Dividends from associates	14	2	2
Dividends from other investments		1	–
Income tax paid		(47)	(32)
Net cash generated from operating activities		**734**	837
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash and cash equivalents	29	–	(2)
Acquisition of associates, net of cash and cash equivalents		(2)	–
Proceeds from disposal of subsidiaries, net of cash and cash equivalents	30	100	54
Proceeds from disposal of associates	30	–	3
Investment in property, plant and equipment	2	(394)	(517)
Investment in intangible assets	11	(4)	(5)
Proceeds from the disposal of property, plant and equipment and intangible assets		14	11
Investment in forestry assets	13	(46)	(40)
Investment in financial asset investments	16	(11)	(7)
Proceeds from the sale of financial asset investments		3	–
Loan repayments from related parties	16	1	1
Loan repayments from external parties	16	2	1
Interest received		10	8
Other investing activities		(2)	1
Net cash used in investing activities		**(329)**	(492)
Cash flows from financing activities			
Repayment of short-term borrowings	32c	(51)	(288)
Proceeds from medium and long-term borrowings	32c	717	138
Repayment of medium and long-term borrowings	32c	(831)	(100)
Interest paid		(117)	(163)
Dividends paid to non-controlling interests	10	(18)	(9)
Dividends paid to equity holders of the parent companies	10	(54)	(39)
Purchases of treasury shares		(2)	(1)
Contribution by non-controlling interests		–	27
Non-controlling interests bought out		(5)	–
Net realised (loss)/gain on cash and asset management swaps		(48)	67
Other financing activities		–	4
Net cash used in financing activities		**(409)**	(364)
Net decrease in cash and cash equivalents		**(4)**	(19)
Cash and cash equivalents at beginning of year[1]		37	75
Cash movement in the year	32c	(4)	(19)
Reclassification	32c	–	(19)
Effects of changes in foreign exchange rates	32c	(9)	–
Cash and cash equivalents at end of year[1]		**24**	37

Note:
[1] 'Cash and cash equivalents' includes overdrafts and cash flows from disposal groups and is reconciled to the combined and consolidated statement of financial position in note 32b.

Combined and consolidated statement of changes in equity

for the year ended 31 December 2010

€ million	Combined share capital and share premium	Retained earnings	Other reserves[1]	**Total attributable to equity holders of the parent companies**	Non-controlling interests	**Total equity**
At 1 January 2009	646	1,809	(132)	**2,323**	373	**2,696**
Dividends paid	–	(39)	–	**(39)**	(9)	**(48)**
Total comprehensive income for the year	–	(33)	137	**104**	39	**143**
Issue of shares under employee share schemes	–	19	(19)	**–**	–	**–**
Purchases of treasury shares (see note 27)	–	(1)	–	**(1)**	–	**(1)**
Non-controlling interests buy in	–	–	–	**–**	27	**27**
Non-controlling interests bought out	–	–	–	**–**	(3)	**(3)**
Reclassification	–	(12)	15	**3**	(3)	**–**
Other	–	–	9	**9**	1	**10**
At 31 December 2009	646	1,743	10	**2,399**	425	**2,824**
Dividends paid	–	(54)	–	**(54)**	(18)	**(72)**
Total comprehensive income for the year	–	224	177	**401**	75	**476**
Issue of shares under employee share schemes	–	5	(5)	**–**	–	**–**
Purchases of treasury shares (see note 27)	–	(2)	–	**(2)**	–	**(2)**
Disposal of businesses	–	–	12	**12**	(18)	**(6)**
Non-controlling interests bought out	–	(1)	–	**(1)**	(3)	**(4)**
Reclassification	–	1	(1)	**–**	–	**–**
Other	–	–	8	**8**	–	**8**
At 31 December 2010	**646**	**1,916**	**201**	**2,763**	**461**	**3,224**

Note:
[1] Other reserves are analysed further below.

	Other reserves[1]					
€ million	Share-based payment reserve	Cumulative translation adjustment reserve	Cash flow hedge reserve	Post-retirement benefit reserve	Other reserves[2]	Total
At 1 January 2009	24	(336)	(35)	(36)	251	(132)
Total comprehensive income for the year	–	114	16	6	1	137
Mondi share schemes' charge	8	–	–	–	–	8
Issue of shares under employee share schemes	(19)	–	–	–	–	(19)
Non-controlling put option issued	–	–	–	–	1	1
Reclassification	–	–	–	2	13	15
At 31 December 2009	13	(222)	(19)	(28)	266	10
Total comprehensive income for the year	–	180	9	(12)	–	177
Mondi share schemes' charge	8	–	–	–	–	8
Issue of shares under employee share schemes	(5)	–	–	–	–	(5)
Disposal of businesses	–	12	–	–	–	12
Reclassification	1	(1)	–	–	(1)	(1)
At 31 December 2010	**17**	**(31)**	**(10)**	**(40)**	**265**	**201**

Notes:
[1] All movements in other reserves are disclosed net of non-controlling interests. The movements in non-controlling interests as a direct result of the movements in other reserves for the year ended 31 December 2010 are as follows – increase in non-controlling interests related to total comprehensive income for the year of €14 million (2009: €9 million).
[2] Other reserves consist of the merger reserve of €259 million (2009: €259 million) and other sundry reserves of €6 million (2009: €7 million).

Notes to the combined and consolidated financial statements

for the year ended 31 December 2010

1 Accounting policies

Basis of preparation

The Group's combined and consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The Group has also complied with South African Statements and Interpretations of Statements of Generally Accepted Accounting Practice. There are no differences for the Group in applying IFRS as issued by the IASB and IFRS as adopted by the European Union (EU) and therefore the Group also complies with Article 4 of the EU IAS Regulation. The combined and consolidated financial statements have been prepared on a going concern basis as discussed in the business review, under the heading 'Going concern'.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies adopted are set out below.

Basis of consolidation

Dual listed structure

The Group has two separate legal parent entities, Mondi Limited and Mondi plc, which operate under a dual listed company (DLC) structure. The substance of the DLC structure is such that Mondi Limited, and its subsidiaries, and Mondi plc and its subsidiaries, operate together as a single economic entity through a sharing agreement, with neither parent entity assuming a dominant role. Accordingly, Mondi Limited and Mondi plc are reported on a combined and consolidated basis as a single reporting entity under IFRS.

Subsidiary undertakings

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

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

The interest of non-controlling interests is measured, at initial recognition, as the non-controlling proportion of the fair values of the assets and liabilities recognised at acquisition, except for those instances where the Group elects to measure the non-controlling interests at fair value in accordance with the allowance provided in IFRS 3, 'Business Combinations' (revised).

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

Associates

Associates are investments over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Typically, the Group owns between 20% and 50% of the voting equity of its associates. Investments in associates are accounted for using the equity method of accounting except when classified as held for sale.

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

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

Notes to the combined and consolidated financial statements
continued

for the year ended 31 December 2010

1 Accounting policies (continued)

Joint ventures
A joint venture is an entity in which the Group holds a long-term interest with a contractually agreed sharing of control over the strategic, financial and operating decisions with one or more other venturers.

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint venture's individual income, expenditure, assets, liabilities and cash flows on a line-by-line basis with similar items in the Group's combined and consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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.

Sale of green energy and CO_2 credits
Revenues generated from the sale of green energy and CO_2 credits issued under international schemes are recorded as income within 'other net operating expenses' in the combined and consolidated income statement when ownership rights pass to the buyer.

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 Group's right to receive payment has been established.

Business combinations

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

Cost of a business combination
The cost of a business combination includes the fair value of assets provided, liabilities incurred or assumed, and any equity instruments issued by a Group entity, in exchange for control of an acquiree. The directly attributable costs associated with a business combination are expensed as incurred.

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

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

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

1 Accounting policies (continued)

Impairment of goodwill

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

Any impairment is recognised in the combined and consolidated income statement. Impairments of goodwill are not subsequently reversed.

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

Property, plant and equipment

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

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

Depreciation is charged so as to write off the cost of assets, other than land, and assets in the course of construction, over their estimated useful lives to their estimated residual values.

Assets in the course of construction are carried at cost, less any recognised impairment. Depreciation commences when the assets are ready for their intended use. Buildings 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.

Residual values and useful lives are reviewed at least annually.

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

Licences, other intangibles and research and development expenditure

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

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

Impairment of tangible and intangible assets excluding goodwill

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

Notes to the combined and consolidated financial statements
continued

for the year ended 31 December 2010

1 Accounting policies (continued)

The recoverable amount of the asset, or cash-generating unit, is the higher of its fair value less costs to sell 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. Where the underlying circumstances change such that a previously recognised impairment subsequently reverses, the carrying amount of the asset, or cash-generating unit, is increased to the revised estimate of its recoverable amount. Such reversal is limited to the carrying amount that would have been determined had no impairment been recognised for the asset, or cash-generating unit, in prior years. A reversal of an impairment is recognised in the combined and consolidated 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 combined and consolidated 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 in the combined and consolidated statement of cash flows.

Non-current assets held for sale

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

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

Discontinued operations are either a separate major line of business or geographical area of operations that have been sold or are part of a single co-ordinated plan for disposal, or represent a subsidiary acquired exclusively with a view to resale.

Current non-financial assets

Inventory

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

Retirement benefits

The Group operates both defined benefit and defined contribution schemes for its employees as well as post-retirement medical plans.

1 Accounting policies (continued)

Defined contribution plans
For defined contribution schemes, the amount charged to the combined and consolidated income statement is the contributions paid or payable during the year.

Defined benefit and post-retirement medical plans
For defined benefit pension and post-retirement medical plans, actuarial valuations are performed at each financial year end. The average discount rate for the plans' liabilities is based on AA rated corporate bonds or similar government bonds of a suitable duration and currency. Pension plans' assets are measured using year end market values.

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

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

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

Tax

The tax expense represents the sum of the current tax charge, the movement in deferred tax and the South African Secondary Tax on Companies (STC), which is a tax charge on dividends declared.

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

The Group pays STC on dividends declared by South African entities net of dividends received, based on the applicable STC rate.

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 Group's combined and consolidated 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, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

1 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 in the combined and consolidated income statement, except when it relates to items charged or credited directly to other comprehensive income and accumulated 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 Group 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.

Operating leases

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

Finance leases

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

Provisions

Provisions are recognised when the Group 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 is material.

Restoration and environmental costs

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

Government grants

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

Foreign currency transactions and translation

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

1 Accounting policies (continued)

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

Share-based payments

The Group 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 Group revises its estimates of the number of share awards that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the combined and consolidated income statement, with a corresponding adjustment to equity.

Financial instruments

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

Financial asset investments
Investments, other than investments in subsidiaries, joint ventures 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 combined and consolidated income statement.

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

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments of a maturity of three months or less from the date of acquisition that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within short-term borrowings in current liabilities on the combined and consolidated statement of financial position. Cash and cash equivalents in the combined and consolidated 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 combined and consolidated income statement over the term of the borrowings using the effective interest rate method.

Notes to the combined and consolidated financial statements
continued

for the year ended 31 December 2010

1 Accounting policies (continued)

Net debt
Net debt is a non-IFRS measure and consists of short-term, medium and long-term borrowings, bank overdrafts less cash and cash equivalents 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 Group during the construction period.

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

Derivative financial instruments and hedge accounting

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

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

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

Cash flow hedges
The effective portion of changes in the fair value of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in equity. The gain or loss relating to the ineffective portion is recognised immediately in the combined and consolidated 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 Group's cash flow hedge reserve in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of a non-financial asset or a non-financial liability, amounts deferred in the Group's cash flow hedge reserve in equity are recognised in the combined and consolidated income statement in the same period in which the hedged item affects profit or loss on a proportionate basis.

Fair value hedges
For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the combined and consolidated income statement. Gains or losses from remeasuring the associated derivative are also recognised in the combined and consolidated 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 when the forecast transaction is ultimately recognised in the combined and consolidated income statement. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss deferred in equity is included immediately in the combined and consolidated income statement.

1 Accounting policies (continued)

Equity instruments, share issue costs, treasury shares and dividend payments

Equity instruments

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

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of applicable tax, from the proceeds. An incremental share issue cost is one which would not have arisen if shares had not been issued.

Treasury shares

The purchase by any Group entity of either Mondi Limited's or Mondi plc's equity instruments results in the recognition of treasury shares. The consideration paid is deducted from equity. Where treasury shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the equity holders of either Mondi Limited or Mondi plc, net of any directly attributable incremental transaction costs and the related tax effects.

Dividend payments

Dividend distributions to Mondi Limited's and Mondi plc's ordinary equity holders are recognised as a liability in the period in which the dividends are declared and approved. Final dividends are accrued when approved by both Mondi Limited's and Mondi plc's ordinary equity holders at their respective annual general meetings and interim dividends are recognised when approved by the Boards.

Special items

Special items are those items of financial performance that the Group believes should be separately disclosed to assist in the understanding of the underlying financial performance achieved by the Group and its businesses. Such items are material by nature or amount in relation to the financial year's results.

Earnings per share (EPS)

Basic EPS

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

Diluted EPS

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

Underlying and headline EPS

Underlying EPS excludes the impact of special items and is a non-IFRS measure. It is included to provide an additional basis on which to measure the Group's earnings performance. The presentation of headline EPS is mandated under the JSE Listings Requirements and is calculated in accordance with Circular 3/2009, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

Segmental reporting

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

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

1 Accounting policies (continued)

New accounting policies, early adoption and future requirements

Standards and Interpretations early adopted by the Group

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

Standards, amendments to published Standards and Interpretations effective during 2010

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

- IFRS 1 – First-time Adoption of International Financial Reporting Standards
- IFRS 2 – Share-based Payment
- IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations
- IFRS 8 – Operating Segments
- IAS 1 – Presentation of Financial Statements
- IAS 7 – Statement of Cash Flows
- IAS 10 – Events after the Reporting Period
- IAS 12 – Income Taxes
- IAS 17 – Leases
- IAS 18 – Revenue
- IAS 28 – Investments in Associates
- IAS 31 – Interests in Joint Ventures
- IAS 36 – Impairment of Assets
- IAS 38 – Intangible Assets
- IAS 39 – Financial Instruments: Recognition and Measurement
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers

The Group has adopted IFRS 3, 'Business Combinations' (revised 2008), and IAS 27, 'Consolidated and Separate Financial Statements' (revised 2008). Both Standards became effective for annual reporting periods beginning on or after 1 July 2009.

The most significant changes, all of which are applied prospectively, to the Group's previous accounting policies for business combinations are as follows:

- acquisition related costs which previously would have been included in the cost of a business combination are included in administrative expenses in the combined and consolidated income statement as they are incurred;
- any pre-existing equity interest in the acquiree is remeasured to fair value at the date of obtaining control (the acquisition date), with any resulting gain or loss recognised in profit or loss;
- any changes in the Group's ownership interest subsequent to the acquisition date are recognised directly in equity, with no adjustment to goodwill; and
- any changes to the cost of an acquisition, including contingent consideration, resulting from events after the acquisition date are recognised in profit or loss. Previously, such changes resulted in an adjustment to goodwill.

Any adjustments to contingent consideration for acquisitions made prior to 1 January 2010 which result in an adjustment to goodwill continue to be accounted for under IFRS 3 (2004) and IAS 27 (2005), for which the accounting policies can be found in the Group's annual financial statements for the year ended 31 December 2009. The application of both revised Standards did not have a material impact on the Group's results.

1 Accounting policies (continued)

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

The following Standards, amendments to published Standards and Interpretations are not expected to have a significant impact on the Group's results in the first year of adoption:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards
- IFRS 3 – Business Combinations
- IFRS 7 – Financial Instruments: Disclosures
- IAS 1 – Presentation of Financial Statements
- IAS 21 – The Effects of Changes in Foreign Exchange Rates
- IAS 24 – Related Party Disclosures
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 28 – Investments in Associates
- IAS 31 – Interests in Joint Ventures
- IAS 32 – Financial Instruments: Presentation
- IAS 34 – Interim Financial Reporting
- IFRIC 13 – Customer Loyalty Programs
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

The Group is in the process of assessing the impact of IFRS 9, 'Financial Instruments', on the Group's results in the period of initial adoption. This Standard will become effective for annual reporting periods beginning on or after 1 January 2013.

Accounting estimates and critical judgements

The preparation of the Group's combined and consolidated financial statements includes the use of estimates and assumptions which affect certain items reported in the combined and consolidated statement of financial position and the combined and consolidated 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 knowledge of current circumstances and future events and actions, actual results may differ from those estimates. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next financial year are disclosed below.

Estimated residual values and useful economic lives

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

Estimated impairment of goodwill and tangible fixed assets

For the year ended 31 December 2010 the Group incurred net asset impairment costs of €44 million (2009: €88 million) (see note 12) and goodwill impairment costs of €nil (2009: €12 million) (see note 11).

The Group assesses annually whether goodwill and tangible fixed assets have suffered any impairment, in accordance with the stated Group accounting policy. The recoverable amounts of goodwill allocated to cash-generating units and tangible fixed assets are determined based on value-in-use calculations, which require the exercise of management's judgement across a limited range of input assumptions and estimates. The principal assumptions used relate to the time value of money and expected future cash flows.

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

Fair value of owned forestry assets

For the year ended 31 December 2010 the Group recorded a fair value adjustment of €36 million (2009: €28 million). Forestry assets as at 31 December 2010 totalled €320 million (2009: €251 million).

Notes to the combined and consolidated financial statements
continued

for the year ended 31 December 2010

1 Accounting policies (continued)

The Group determines the fair value based on the present value of expected net cash flows arising from its owned forestry assets, discounted at a current, market determined pre tax rate. Management's judgement is exercised in determining the future net cash flows and the discount rate. Future net cash flows are dependent upon inputs including expected selling prices; costs of transport, harvesting, extraction and loading (THEL); and the factor used to convert hectares of land under afforestation to tonnes of standing timber which in itself is dependent on a variety of environmental factors. Net selling price is selling price after deduction of THEL costs.

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

€ million	2010
Effect of €1 increase in net selling price	11
Effect of 1% increase in conversion factor (hectares to tonnes)	3
Effect of 1% increase in discount rate	(3)

Retirement benefits

As at 31 December 2010 the retirement benefits asset was €11 million (2009: €8 million) and the retirement benefits obligation was €211 million (2009: €184 million).

The Group's scheme liabilities are sensitive to changes in various underlying actuarial assumptions set by management. These assumptions include the discount and inflation rates to apply to scheme liabilities, the mortality rates to apply to scheme members, the long-term medical cost trend rates to apply to medical schemes and the rates of increase of future salaries. Further details regarding the assumptions are set out in note 24.

2 Operating segments

Identification of the Group's externally reportable operating segments

The Group's externally reportable segments reflect the internal reporting structure of the Group, which is the basis on which resource allocation decisions are made by management in the attainment of strategic objectives. The Group operates under two primary geographic regions reflecting its South African activities and assets, and its international, principally European, activities and assets. These broad geographic regions are further split by product segments reflecting the management of the Group. In addition the Group manages Mondi Packaging South Africa and the Newsprint businesses separately and therefore these have been presented as separate segments.

Product revenues

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

Operating segments	Internal revenues[1]	External revenues
Europe & International		
Uncoated Fine Paper	– Uncoated fine paper – Pulp – Newsprint	– Uncoated fine paper – Pulp – Newsprint
Corrugated	– Corrugated products	– Corrugated products
Bags & Coatings	– Kraft paper & industrial bags	– Kraft paper & industrial bags – Coatings & consumer packaging
South Africa Division	– Uncoated fine paper – Pulp – Corrugated products	– Uncoated fine paper – Pulp – Corrugated products – Woodchips
Mondi Packaging South Africa	– Corrugated products – Recycled fibre	– Corrugated products – Plastic packaging products
Newsprint businesses	– Newsprint	– Newsprint

Note:

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

2 Operating segments (continued)

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

Management has regard to certain operating segment measures in making resource allocation decisions and monitoring segment performance. The operating segment measures required to be disclosed adhere to the recognition and measurement criteria presented in the Group's accounting policies. In addition, the Group has presented certain non-IFRS measures by segment to supplement the user's understanding. All intra-group transactions are conducted on an arm's length basis.

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

The Group's geographic analysis is presented on the following level:
- continental; or
- sub-continental; or
- by individual country (if greater than 10% of the Group total).

The Group disposed of its Merchant business, Europapier, during the year ended 31 December 2010. The results of the Merchant business are included in the Newsprint businesses segment up to its date of disposal of 4 November 2010. There has been no change in the basis of measurement of segment profit or loss in the financial year.

Operating segment revenue

€ million	2010 Segment revenue	2010 Internal revenue[1]	2010 External revenue[2]	2009 Segment revenue	2009 Internal revenue[1]	2009 External revenue[2]
Europe & International						
Uncoated Fine Paper	1,516	(129)	1,387	1,351	(130)	1,221
Corrugated	1,235	(59)	1,176	1,041	(36)	1,005
Bags & Coatings	2,226	(39)	2,187	1,787	(24)	1,763
Intra-segment elimination	(125)	125	–	(80)	80	–
Total Europe & International	4,852	(102)	4,750	4,099	(110)	3,989
South Africa Division	580	(211)	369	478	(210)	268
Mondi Packaging South Africa	647	(29)	618	498	(25)	473
Newsprint businesses[3]	492	(1)	491	528	(1)	527
Segments total	**6,571**	**(343)**	**6,228**	5,603	(346)	5,257
Inter-segment elimination	(343)	343	–	(346)	346	–
Group total	**6,228**	**–**	**6,228**	5,257	–	5,257

Notes:
1 Inter-segment transactions are conducted on an arm's length basis.
2 The description of each business segment reflects the nature of the main products they sell. In certain instances the business segments sell minor volumes of other products and due to this reason the external segment revenues will not necessarily reconcile to the external revenues by each type of product presented below.
3 Revenue of the Merchant business is included in the results of the Newsprint businesses segment up to its date of disposal. Excluding the revenue of the Merchant business, the segment external revenue for the year ended 31 December 2010 would have been €151 million.

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

2 Operating segments (continued)

External revenue by product type

€ million	2010	2009
Products		
Corrugated products	1,626	1,357
Uncoated fine paper	1,351	1,195
Kraft paper & industrial bags	1,090	886
Coatings & consumer packaging	889	731
Merchant	429	468
Pulp	247	129
Newsprint	221	208
Woodchips	76	61
Other[1]	299	222
Group total	**6,228**	5,257

Note:

[1] Revenues derived from product types that are not individually material are classified as other.

External revenue by location of customer

€ million	2010	2009
Revenue		
Africa		
South Africa[1]	818	644
Rest of Africa	272	196
Africa total	1,090	840
Western Europe		
Germany	768	641
United Kingdom[1]	323	367
Rest of western Europe	1,474	1,292
Western Europe total	2,565	2,300
Emerging Europe	1,184	1,077
Russia	491	387
North America	234	157
South America	33	17
Asia and Australia	631	479
Group total	**6,228**	5,257

Note:

[1] These revenues, which total €1,141 million (2009: €1,011 million), are attributable to the countries in which the Group's parent entities are domiciled.

2 Operating segments (continued)

External revenue by location of production

€ million	2010	2009
Revenue		
Africa		
South Africa[1]	1,195	948
Rest of Africa	21	13
Africa total	1,216	961
Western Europe		
Austria	1,161	1,010
United Kingdom[1]	155	244
Rest of western Europe	997	855
Western Europe total	2,313	2,109
Emerging Europe		
Poland	711	486
Rest of emerging Europe	1,076	927
Emerging Europe total	1,787	1,413
Russia	617	519
North America	131	104
Asia and Australia	164	151
Group total	**6,228**	5,257

Note:
1 These revenues, which total €1,350 million (2009: €1,192 million), are attributable to the countries in which the Group's parent entities are domiciled.

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

Operating profit/(loss) before special items

€ million	2010	2009
Europe & International		
Uncoated Fine Paper	179	146
Corrugated	119	23
Bags & Coatings	133	82
Total Europe & International	431	251
South Africa Division	64	32
Mondi Packaging South Africa	51	36
Newsprint businesses[1]	(4)	12
Corporate & other businesses	(33)	(37)
Segments total	**509**	294
Special items (see note 5)	(22)	(133)
Net income from associates (see note 14)	2	2
Net finance costs (see note 6)	(117)	(114)
Group profit before tax	**372**	49

Note:
1 Segment operating profit before special items of the Merchant business is included in the results of the Newsprint businesses segment up to its date of disposal. Excluding the operating profit before special items of the Merchant business, the segment operating loss for the year ended 31 December 2010 would have been €10 million.

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

2 Operating segments (continued)

Significant components of operating profit/(loss) before special items

The DLC executive committee uses EBITDA as a measure of cash flow, coupled with the depreciation and amortisation charge, for making decisions about, amongst others, allocation of funds for capital investment.

	EBITDA		Depreciation and amortisation	
€ million	**2010**	2009	**2010**	2009
Europe & International				
Uncoated Fine Paper	279	239	100	93
Corrugated	187	87	68	64
Bags & Coatings	238	189	105	107
Total Europe & International	704	515	273	264
South Africa Division	117	76	53	44
Mondi Packaging South Africa	84	62	33	26
Newsprint businesses[1]	10	28	14	16
Corporate & other businesses	(33)	(36)	–	1
Group and segments total	**882**	645	**373**	351

	Operating lease charges		Green energy sales and disposal of emissions credits	
€ million	**2010**	2009	**2010**	2009
Europe & International				
Uncoated Fine Paper	8	7	6	4
Corrugated	27	25	38	21
Bags & Coatings	9	10	36	22
Total Europe & International	44	42	80	47
South Africa Division	5	5	–	–
Mondi Packaging South Africa	9	7	–	–
Newsprint businesses[1]	6	7	–	–
Corporate & other businesses	2	1	–	–
Group and segments total	**66**	62	**80**	47

Note:
[1] Significant components of operating profit/(loss) before special items of the Merchant business are included in the results of the Newsprint businesses segment up to its date of disposal. Excluding the significant components of operating profit/(loss) before special items of the Merchant business, the segment result for the year ended 31 December 2010 would have been €3 million for EBITDA; €13 million for depreciation and amortisation; and €1 million for operating lease charges.

Reconciliation of total profit/(loss) from operations and associates to EBITDA

€ million	**2010**	2009
Total profit from operations and associates	**489**	163
Special items (excluding associates) (see note 5)	22	133
Depreciation and amortisation	373	351
Share of associates' net income	(2)	(2)
EBITDA	**882**	645

2 Operating segments (continued)

Operating segment assets

€ million	2010 Segment assets[1]	2010 Net segment assets	2009 Segment assets[1]	2009 Net segment assets
Europe & International				
Uncoated Fine Paper	1,672	1,512	1,671	1,494
Corrugated	1,112	898	1,071	872
Bags & Coatings	1,731	1,333	1,531	1,222
Intra-segment elimination	(55)	–	(33)	–
Total Europe & International	4,460	3,743	4,240	3,588
South Africa Division	1,091	953	948	840
Mondi Packaging South Africa	507	393	432	335
Newsprint businesses[2]	141	106	263	194
Corporate & other businesses	10	7	3	4
Inter-segment elimination	(63)	–	(74)	–
Segments total	**6,146**	**5,202**	5,812	4,961
Unallocated:				
Investments in associates	16	16	6	6
Deferred tax assets/(liabilities)	21	(328)	29	(287)
Other non-operating assets/(liabilities)[3]	193	(336)	211	(366)
Group trading capital employed	**6,376**	**4,554**	6,058	4,314
Financial asset investments	34	34	27	27
Net debt	83	(1,364)	123	(1,517)
Group assets	**6,493**	**3,224**	6,208	2,824

Notes:

1 Segment assets are operating assets and as at 31 December 2010 consist of property, plant and equipment of €3,976 million (2009: €3,847 million), intangible assets of €312 million (2009: €308 million), forestry assets of €320 million (2009: €251 million), retirement benefits surplus of €11 million (2009: €8 million), inventories of €702 million (2009: €617 million) and operating receivables of €825 million (2009: €781 million).

2 Following the sale of the Merchant business, the Newsprint businesses segment results do not include any amounts relating to the disposed business as at 31 December 2010.

3 Other non-operating assets consist of derivative assets of €14 million (2009: €7 million), current income tax receivables of €11 million (2009: €16 million), other non-operating receivables of €167 million (2009: €152 million) and assets held for sale of €1 million (2009: €36 million). Other non-operating liabilities consist of derivative liabilities of €24 million (2009: €51 million), non-operating provisions of €92 million (2009: €66 million), current income tax liabilities of €78 million (2009: €55 million), other non-operating payables and deferred income of €335 million (2009: €396 million) and liabilities directly associated with assets classified as held for sale of €nil (2009: €9 million).

Notes to the combined and consolidated financial statements

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2 Operating segments (continued)

Non-current non-financial assets

€ million	2010 Non-current non-financial assets[1]	2010 Segment assets	2010 Net segment assets	2009 Non-current non-financial assets[1]	2009 Segment assets	2009 Net segment assets
Africa						
South Africa[2]	1,253	1,584	1,344	1,074	1,346	1,163
Rest of Africa	13	25	21	10	19	16
Africa total	1,266	1,609	1,365	1,084	1,365	1,179
Western Europe						
Austria	392	752	667	398	735	529
United Kingdom[2]	80	135	113	162	231	173
Rest of western Europe	434	714	543	401	605	492
Western Europe total	906	1,601	1,323	961	1,571	1,194
Emerging Europe						
Poland	580	702	583	600	704	631
Slovakia	492	547	466	544	588	543
Rest of emerging Europe	392	536	394	380	524	425
Emerging Europe total	1,464	1,785	1,443	1,524	1,816	1,599
Russia	896	1,020	961	742	865	836
North America	56	92	74	46	74	65
Asia and Australia	20	39	36	49	121	88
Group total	**4,608**	**6,146**	**5,202**	4,406	5,812	4,961

Notes:

1 Non-current non-financial assets are non-current assets and consist of property, plant and equipment, intangible assets and forestry assets, but exclude retirement benefits surplus, deferred tax assets and non-current financial assets.

2 These non-current non-financial assets, segment assets and net segment assets, which total €1,333 million, €1,719 million and €1,457 million respectively (2009: €1,236 million, €1,577 million and €1,336 million respectively), are attributable to the countries in which the Group's parent entities are domiciled.

2 Operating segments (continued)

Additions to non-current non-financial assets

€ million	Additions to non-current non-financial assets[1]		Capital expenditure cash payments[2]	
	2010	2009	**2010**	2009
Europe & International				
Uncoated Fine Paper	138	257	151	191
Corrugated	79	178	87	195
Bags & Coatings	102	83	92	81
Total Europe & International	319	518	330	467
South Africa Division	71	63	28	26
Mondi Packaging South Africa	28	17	28	17
Newsprint businesses[3]	10	10	7	7
Corporate & other businesses	–	6	1	–
Group and segments total	**428**	614	**394**	517

Notes:

1 Additions to non-current non-financial assets reflect cash payments and accruals in respect of additions to property, plant and equipment, intangible assets and forestry assets and include interest capitalised as well as additions resulting from acquisitions through business combinations. Additions to non-current non-financial assets, however, exclude additions to deferred tax assets, retirement benefits surplus and non-current financial assets.

2 Capital expenditure cash payments exclude business combinations, interest capitalised and investments in intangible and forestry assets.

3 Additions to non-current non-financial assets and capital expenditure cash payments of the Merchant business are included in the results of the Newsprint businesses segment up to its date of disposal. Excluding the additions to non-current non-financial assets and capital expenditure cash payments of the Merchant business, the segment result for the year ended 31 December 2010 would have been €8 million for additions to non-current non-financial assets; and €9 million for capital expenditure cash payments.

3 Operating profit before special items

Operating profit before special items for the year has been arrived at after (charging)/crediting:

€ million	**2010**	2009
Depreciation of property, plant and equipment (see note 12)	(360)	(341)
Amortisation of intangible assets (see note 11)	(13)	(10)
Operating lease charges (see note 2)	(66)	(62)
Research and development expenditure	(11)	(8)
Restructuring/closure costs (excluding special items)	–	(3)
Net foreign currency gains/(losses) (see note 7)	5	(13)
Green energy sales and disposal of emissions credits (see note 2)	80	47
Fair value gains on forestry assets (see note 13)	36	28
Felling costs (see note 13)	(65)	(50)
Profit on disposal of tangible and intangible assets	1	4

Total revenue, as defined under IAS 18, 'Revenue', consisting of Group revenue, sale of green energy and disposal of emissions credits, interest income and dividend income, was €6,319 million (2009: €5,313 million).

Other than depreciation and amortisation, and fair value movements on forestry assets which are disclosed above, there are no other significant non-cash items recorded within Group operating profit as stated before operating special items.

Notes to the combined and consolidated financial statements

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3 Operating profit/(loss) before special items (continued)

An analysis of auditors' remuneration is presented as follows:

€ million	**2010**	2009
Fees payable to the auditors for the audit of Mondi Limited's and Mondi plc's annual accounts and the Group consolidation	0.6	0.6
United Kingdom	0.4	0.4
South Africa	0.2	0.2
Fees payable to the auditors and their associates for other services to the Group		
– The audit of Mondi Limited's and Mondi plc's subsidiaries pursuant to legislation	3.5	3.4
Total audit fees	**4.1**	4.0
Other services pursuant to legislation	0.2	0.4
Tax services		
– tax advisory	0.4	0.8
– tax compliance	0.2	0.1
Other services	0.2	1.4
Total non-audit fees	**1.0**	2.7
Total fees	**5.1**	6.7

4 Employee numbers and costs

The closing number of employees, excluding associates' employees and including a proportionate share of employees within joint venture entities, was:

hundreds	**2010**	2009
By business segment		
Europe & International		
Uncoated Fine Paper	89	98
Corrugated	56	64
Bags & Coatings	83	73
Total Europe & International	228	235
South Africa Division	19	17
Mondi Packaging South Africa	38	37
Newsprint businesses[1]	2	11
Corporate & other businesses	1	1
Group and segments total	**288**	301

Note:

[1] Following the sale of the Merchant business, the Newsprint businesses segment closing number of employees do not include any numbers relating to the disposed business as at 31 December 2010.

4 Employee numbers and costs (continued)

The principal locations of employment were:

hundreds	**2010**	2009
South Africa and rest of Africa	58	57
Western Europe	72	71
Eastern Europe	65	68
Russia	83	92
North America	7	7
Asia and Australia	3	6
Total	**288**	301

Payroll costs in respect of the employees included in the tables above were:

€ million	**2010**	2009
Within operating costs		
Wages and salaries	758	678
Social security costs	140	131
Defined contribution pension plan costs (see note 24)	17	17
Defined benefit pension plan costs (see note 24)	8	7
Share-based payments (see note 28)	8	5
Total within operating costs	**931**	838
Within special items		
Demerger arrangements (see note 5 and note 28)	–	3
Personnel costs relating to restructuring (see note 5)	23	21
Total within special items	**23**	24
Within net finance costs		
Post-retirement medical plan costs (see note 24)	6	4
Defined benefit pension plan costs (see note 24)	3	5
Total within net finance costs	**9**	9
Total	**963**	871

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4 Employee numbers and costs (continued)

Compensation for the Boards and key management[1]

€ million	2010	2009
Salaries and short-term employee benefits	5.7	5.5
Non-executive directors	0.9	1.1
Post-employment benefits	1.5	1.1
Termination payments	–	1.3
Social security	0.3	0.2
Share-based payments	2.8	2.3
Costs associated with demerger[2]	–	2.0
Total	**11.2**	13.5

Notes:

[1] In accordance with IAS 24, 'Related Party Disclosures', key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and includes directors (both executive and non-executive) of Mondi Limited and Mondi plc, see note 38 for further details.

[2] Costs associated with the demerger from Anglo American plc relate to charges associated with awards arising as a result of the demerger (demerger share awards, transitional share awards, Co-Investment Plan and Deferred Mondi Cash Pool).

5 Special items

€ million	2010	2009
Operating special items		
Goodwill impairments	–	(12)
Asset impairments	(33)	(78)
Reversal of asset impairments	9	–
Restructuring and closure costs		
Restructuring and closure costs excluding related personnel costs	(14)	(27)
Personnel costs relating to restructuring	(24)	(21)
Reversal of restructuring and closure costs excluding related personnel costs	30	5
Reversal of personnel costs relating to restructuring	1	–
Demerger arrangements	–	(3)
Proceeds on insurance	–	8
Gain on acquisition of business (see note 29)	34	–
Total operating special items	**3**	(128)
Non-operating special items		
(Loss)/profit on disposals (see note 30)	(11)	3
Impairments of assets held for sale	(14)	(8)
Total non-operating special items	**(25)**	(5)
Total special items before tax and non-controlling interests	(22)	(133)
Tax (see note 8)	6	6
Non-controlling interests	1	(1)
Total special items attributable to equity holders of the parent companies	**(15)**	(128)

Special items before tax and non-controlling interests by operating segment:

€ million	2010	2009
Europe & International		
Uncoated Fine Paper	5	(2)
Corrugated	(15)	(55)
Bags & Coatings	28	(48)
Total Europe & International	18	(105)
South Africa Division	(10)	(22)
Mondi Packaging South Africa	(1)	7
Newsprint businesses[1]	(29)	(12)
Corporate & other businesses	–	(1)
Segments total	**(22)**	(133)

Note:

[1] Special items of the Merchant business are included in the results of the Newsprint businesses segment up to its date of disposal. Excluding the special items of the Merchant business, the segment result for the year ended 31 December 2010 would have been €1 million.

5 Special items (continued)

Year ended 31 December 2010

Operating special items

A 120,000 tonne uncoated fine paper machine and related converting capacity in the Merebank plant was mothballed in September 2010 and the business restructured. This led to the recognition of an asset impairment of €20 million and related restructuring costs of €6 million.

The completion of the sale of the Szolnok site resulted in the reversal of previously recognised restructuring and closure provisions and the realisation of the cumulative translation adjustment reserve, amounting to €10 million.

The restarting of the Stambolijski kraft paper line resulted in a reversal of impairment (€8 million) and related provisions (€17 million) recognised for the closure that are no longer required.

Underperforming non-integrated kraft paper assets in Lohja and Ružomberok were partially impaired by €8 million.

The start-up of the recently completed capital project in Syktyvkar resulted in the impairment of obsolete assets of €3 million and further restructuring costs of €3 million.

The acquisition of eight industrial bag plants in western Europe from Smurfit Kappa UK Limited resulted in a gain of €34 million being recognised. Restructuring activities were necessary to streamline the acquisition and to promote efficiency and profitability which resulted in €28 million of restructuring and closure costs being recognised.

Other smaller operating special items include a reversal of asset impairment of €1 million, reversal of certain restructuring and closure costs of €4 million, restructuring costs of €1 million in Europe & International and asset impairments of €1 million each in Mondi Shanduka Newsprint and Mondi Packaging South Africa.

Non-operating special items

The sale of the corrugated plants in the UK to Smurfit Kappa UK Limited resulted in a loss on disposal (including realisation of the cumulative translation adjustment reserve) of €16 million and an impairment of assets of €1 million.

Purchase price adjustments relating to the sale of Cartonstrong and Niedergösgen resulted in a gain of €3 million being recognised.

The Group disposed of a portion of its shareholding in Mondi Hadera Paper Limited, retaining a non-controlling share of 25% and recognising a gain on disposal of €1 million.

The sale of 38,425 hectares of forestry assets in South Africa realised a gain of €16 million.

On classification as held for sale in May 2010, the non-current assets of Europapier were impaired in full resulting in a €13 million charge. The transaction was concluded on 4 November 2010 and a loss on disposal of €15 million was realised. A total charge of €28 million was therefore recognised in respect of the disposal of Europapier.

Year ended 31 December 2009

Operating special items

Difficult trading conditions during the year resulted in management taking decisive action to further restructure the cost base incurring restructuring and closure costs amounting to €43 million, the most significant of which was the closure of the Stambolijski mill.

Goodwill of €12 million, relating to the paper merchant Europapier was impaired. Further asset impairments of €78 million were recognised, the most significant of which was a UK corrugated plant and an uncoated fine paper machine in South Africa.

Other operating special items included insurance proceeds for a fire damaged asset and the cost of equity settled demerger arrangements for senior management.

Non-operating special items

Various corrugated converting operations in France and a recycled containerboard plant in Italy were sold generating a net loss of €5 million.

Notes to the combined and consolidated financial statements

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6 Net finance costs

Net finance costs and related foreign exchange gains/(losses) are presented below:

€ million	2010	2009
Investment income		
Interest income		
Bank deposits, loan receivables and other	10	8
Available-for-sale investments	–	1
Total interest income	**10**	9
Dividend income	1	–
Expected return on defined benefit arrangements (see note 24)	24	17
Impairment of financial assets (excluding trade receivables)	–	(1)
Other financial income	–	2
Total investment income	**35**	27
Foreign currency gains/(losses)		
Foreign currency gains/(losses)	9	(3)
Less: foreign currency (gains)/losses capitalised (see note 12)	(1)	2
Total foreign currency gains/(losses) (see note 7)	**8**	(1)
Financing costs		
Interest expense		
Interest on bank overdrafts and loans	(134)	(158)
Interest on obligations under finance leases	(1)	(1)
Interest on defined benefit arrangements (see note 24)	(33)	(26)
Total interest expense	**(168)**	(185)
Less: interest capitalised (see note 12)	8	45
Total financing costs	**(160)**	(140)
Net finance costs	**(117)**	(114)

The weighted average interest rate applicable to interest on general borrowings capitalised for the year ended 31 December 2010 is 3.9% (2009: 10.2%), mainly related to loans in Poland and Russia.

7 Foreign exchange

The amounts of net foreign currency gains/(losses) credited/(charged) to the combined and consolidated income statement is presented as follows:

€ million	2010	2009
Net operating foreign currency gains/(losses) (see note 3)	5	(13)
Net financing foreign currency gains/(losses)[1] (see note 6)	8	(1)
Net foreign currency gains/(losses)	**13**	(14)

Note:

[1] Net of fair value movements attributable to foreign exchange contracts.

8 Tax charge

(a) Analysis of charge for the year from continuing operations

€ million	2010	2009
UK corporation tax at 28% (2009: 28%)	(2)	1
SA corporation tax at 28% (2009: 28%)	5	5
Overseas tax	74	46
Current tax (excluding tax on special items)	**77**	52
Deferred tax in respect of the current period (excluding tax on special items)	20	15
Deferred tax in respect of prior period over provision	(4)	(9)
Total tax charge before special items	**93**	58
Current tax on special items	–	1
Deferred tax on special items	(6)	(7)
Total tax credit on special items (see note 5)	**(6)**	(6)
Total tax charge	**87**	52

(b) Factors affecting tax charge for the year

The Group's effective rate of tax before special items for the year ended 31 December 2010, calculated on profit before tax before special items and including net income from associates, is 24% (2009: 32%).

The Group's total tax charge for the year can be reconciled to the tax on the Group's profit before tax at the UK and SA corporation tax rate of 28% (2009: 28%), as follows:

€ million	2010	2009
Profit before tax	372	49
Tax on profit before tax calculated at UK and SA corporation tax rate of 28% (2009: 28%)	**104**	14
Tax effect of net income from associates, calculated at 28% (2009: 28%)	(1)	(1)
Tax effects of:		
Expenses not (taxable)/deductible for tax purposes	**(12)**	27
Intangible amortisation and non-qualifying depreciation	(6)	(4)
Special items not (taxable)/deductible	(10)	22
Other non-deductible expenses	4	9
Non-taxable income	**(1)**	(1)
Temporary difference adjustments	**24**	20
Changes in tax rates[1]	–	(1)
Current year tax losses and other temporary differences not recognised	30	30
Prior period tax losses and other temporary differences not previously recognised	(6)	(9)
Other adjustments	**(27)**	(7)
Current tax prior period adjustments	8	3
South African Secondary Tax on Companies	2	1
Tax incentives	(16)	(4)
Effect of differences between local rates and UK and SA rates	(27)	(13)
Other adjustments	6	6
Tax charge for the year	**87**	52

Note:
[1] For the year ended 31 December 2009, changes in tax rates principally relates to adjustments made to deferred tax balances based on substantively enacted future reductions in corporation tax rates in Israel.

IAS 1 requires income from associates to be presented net of tax on the face of the combined and consolidated income statement. The Group's share of its associates' tax is therefore not presented within the Group's total tax charge. The associates' tax charge included within 'Net income from associates' for the year ended 31 December 2010 is €1 million (2009: €1 million).

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

9 Earnings per share

€ cents per share	2010	2009
Profit/(loss) for the financial year attributable to equity holders of the parent companies		
Basic EPS	**44.1**	(6.5)
Diluted EPS	**43.6**	(6.5)[3]
Underlying earnings for the financial year[1]		
Basic EPS	**47.0**	18.7
Diluted EPS	**46.5**	18.2
Headline earnings for the financial year[2]		
Basic EPS	**47.0**	11.4
Diluted EPS	**46.5**	11.1

Notes:

1 Underlying EPS excludes the impact of special items.

2 The presentation of Headline EPS is mandated under the JSE Listings Requirements. Headline earnings has been calculated in accordance with Circular 3/2009, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

3 Diluted EPS is consistent with Basic EPS as the impact of potential ordinary shares is anti-dilutive.

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

	Earnings	
€ million	2010	2009
Profit/(loss) for the financial year attributable to equity holders of the parent companies	**224**	(33)
Special items (see note 5)	22	133
Related tax (see note 5)	(6)	(6)
Related non-controlling interests (see note 5)	(1)	1
Underlying earnings for the financial year	**239**	95
Profit on disposal of tangible and intangible assets (see note 3)	(1)	(4)
Special items: demerger arrangements (see note 5)	–	(3)
Special items: restructuring and closure costs (see note 5)	(7)	(43)
Impairments not included in special items (see note 12)	6	10
Related tax	2	3
Headline earnings for the financial year	**239**	58

	Number of shares	
million	2010	2009
Basic number of ordinary shares outstanding[1]	**508**	508
Effect of dilutive potential ordinary shares[2]	6	13
Diluted number of ordinary shares outstanding	**514**	521

Notes:

1 The basic number of ordinary shares outstanding represents the weighted average number in issue for Mondi Limited and Mondi plc for the year, as adjusted for the weighted average number of treasury shares held during the year.

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

10 Dividends

Dividends paid to the equity holders of Mondi Limited and Mondi plc are presented on a combined basis.

€ million	2010	2009
Interim dividend paid	18	13
Final dividend paid (in respect of prior year)	36	26
Final dividend proposed for year ended 31 December[1]	**84**	36
Paid to non-controlling interests	18	9

Note:

[1] The dividend proposed is subject to approval by shareholders at the annual general meetings of Mondi Limited and Mondi plc scheduled for 5 May 2011 and therefore has not been included as a liability in the Group's combined and consolidated statement of financial position.

€ cents per share	2010	2009
Interim dividend paid	3.5	2.5
Final dividend paid (in respect of prior year)	7.0	5.0
Final dividend proposed for the year ended 31 December	**16.5**	7.0

11 Intangible assets

2010/€ million	Goodwill[1]	Licences and other intangibles[2]	Total
Cost			
At 1 January	558	109	667
Additions	–	4	4
Disposal of assets	–	(8)	(8)
Disposal of businesses (see note 30)	(1)	(2)	(3)
Reclassification	(9)	44	35
Currency movements	11	6	17
At 31 December	**559**	**153**	**712**
Accumulated amortisation and impairment			
At 1 January	289	70	359
Charge for the year	–	13	13
Impairments	–	1	1
Disposal of assets	–	(6)	(6)
Disposal of businesses (see note 30)	–	(2)	(2)
Reclassification	(9)	35	26
Currency movements	5	4	9
At 31 December	**285**	**115**	**400**
Net book value as at 31 December	**274**	**38**	**312**

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for the year ended 31 December 2010

11 Intangible assets (continued)

2009/€ million	Goodwill[1]	Licences and other intangibles[2]	Total
Cost			
At 1 January	611	84	695
Additions	–	5	5
Disposal of assets	(51)	(2)	(53)
Reclassification	–	18	18
Currency movements	(2)	4	2
At 31 December	558	109	667
Accumulated amortisation and impairment			
At 1 January	328	44	372
Charge for the year	–	10	10
Impairments	12	1	13
Disposal of assets	(51)	(2)	(53)
Reclassification	–	16	16
Currency movements	–	1	1
At 31 December	289	70	359
Net book value as at 31 December	269	39	308

Notes:

[1] For impairments of goodwill, see note 5.

[2] Licences and other intangibles mainly relate to software development costs, customer relationships and contractual arrangements capitalised as a result of business combinations.

Impairment tests for goodwill

Goodwill is allocated for impairment testing purposes to cash-generating units (CGUs) which reflect how it is monitored for internal management purposes.

With effect from 1 January 2011, the Coating & Release and Consumer Flexibles business units have been combined into a single economic unit, Coatings & Consumer Packaging. As a result, the goodwill calculation is now based on the Coatings & Consumer Packaging CGU and the impairment calculations, being forward-looking in nature, have been performed based on the new reporting structure. There was no impact on the impairment of goodwill.

The recoverable amount of a CGU is determined based on value-in-use calculations. Value-in-use calculations use cash flow projections based on financial budgets covering a three year period that are based on the latest forecasts for revenue and cost as approved by the Boards. Cash flow projections beyond three years are based on internal management forecasts and assume a growth rate not exceeding gross domestic product for the respective countries. Zero percent growth rates are assumed in perpetuity for most of the businesses given the commodity nature of the majority of the products (i.e. volume growth is assumed to be offset by real price declines). Post tax cash flow projections are discounted using a post tax discount rate of 6.62% (2009: 8.83%), adjusted by 0%-3% reflecting the economic and political risks of the specific location that are not reflected in the underlying cash flows specific to each CGU. Perpetuity maintenance capital expenditure has been assumed at 60% of depreciation.

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

11 Intangible assets (continued)

The following impairments of goodwill have been recognised in the years ended 31 December:

€ million	2010	2009
Newsprint businesses		
Europapier	–	12
Total goodwill impairments	**–**	12

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

€ million	2010	2009
Europe & International		
Uncoated Fine Paper	37	37
Kraft Paper	83	83
Industrial Bags	52	51
Coatings & Consumer Packaging	36	35
Total Europe & International	208	206
Mondi Packaging South Africa	66	63
Total goodwill	**274**	269

12 Property, plant and equipment

2010/€ million	Land and buildings	Plant and equipment	Other[1]	Total
Cost				
At 1 January	1,475	5,590	874	7,939
Acquired through business combinations (see note 29)	5	8	1	14
Additions	15	79	270	364
Disposal of assets	(20)	(55)	(12)	(87)
Disposal of businesses (see note 30)	(53)	(163)	(22)	(238)
Reclassification	82	505	(639)	(52)
Currency movements	61	366	33	460
At 31 December	**1,565**	**6,330**	**505**	**8,400**
Accumulated depreciation				
At 1 January	577	3,229	286	4,092
Charge for the year	38	302	20	360
Impairments[2]	16	32	5	53
Impairments reversed[2]	(1)	(5)	(3)	(9)
Disposal of assets	(15)	(50)	(11)	(76)
Disposal of businesses (see note 30)	(24)	(113)	(20)	(157)
Reclassification	–	(16)	(33)	(49)
Currency movements	22	177	11	210
At 31 December	**613**	**3,556**	**255**	**4,424**
Net book value as at 31 December	**952**	**2,774**	**250**	**3,976**

Notes:

1 Other includes €190 million (2009: €519 million) of assets in the course of construction, which are not yet depreciated in accordance with the accounting policy set out in note 1.

2 Impairments include €33 million (2009: €78 million) of asset impairments reflected in special items, €14 million (2009: €8 million) of asset impairments as a result of being classified as held for sale reflected in special items, and €6 million (2009: €2 million) of other impairments. Impairments reversed consist of €9 million (2009: €nil) of reversals of asset impairments reflected in special items.

Notes to the combined and consolidated financial statements

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12 Property, plant and equipment (continued)

2009/€ million	Land and buildings	Plant and equipment	Other[1]	Total
Cost				
At 1 January	1,352	5,178	901	7,431
Additions	98	201	270	569
Disposal of assets	(9)	(74)	(14)	(97)
Disposal of businesses (see note 30)	(19)	(74)	(2)	(95)
Reclassification	29	139	(302)	(134)
Currency movements	24	220	21	265
At 31 December	1,475	5,590	874	7,939
Accumulated depreciation				
At 1 January	566	2,976	278	3,820
Charge for the year	35	281	25	341
Impairments[2]	13	71	4	88
Disposal of assets	(6)	(72)	(12)	(90)
Disposal of businesses (see note 30)	(6)	(50)	(1)	(57)
Reclassification	(30)	(68)	(16)	(114)
Currency movements	5	91	8	104
At 31 December	577	3,229	286	4,092
Net book value as at 31 December	898	2,361	588	3,847

Notes:

1 Other includes €190 million (2009: €519 million) of assets in the course of construction, which are not yet being depreciated in accordance with the accounting policy set out in note 1.

2 Impairments include €33 million (2009: €78 million) of asset impairments reflected in special items, €14 million (2009: €8 million) of asset impairments as a result of being classified as held for sale reflected in special items, and €6 million (2009: €2 million) of other impairments. Impairments reversed consist of €9 million (2009: €nil) of reversals of asset impairments reflected in special items.

Included in the cost above is €8 million of interest (2009: €45 million) and €1 million of foreign exchange gains (2009: €2 million of foreign exchange losses) incurred on qualifying assets which has been capitalised during the year. Tax relief on interest and foreign exchange gains/(losses) capitalised is based on the tax rates prevailing in the jurisdiction in which these items are incurred.

The net book value and depreciation charges relating to assets held under finance leases amount to €20 million (2009: €16 million) and €3 million (2009: €3 million) respectively.

The net book value of land and buildings comprises:

€ million	**2010**	2009
Freehold	944	863
Leasehold – long	1	2
Leasehold – short (less than 50 years)	7	33
Total land and buildings	**952**	898

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

13 Forestry assets

€ million	2010	2009
At 1 January	251	214
Capitalised expenditure	44	37
Acquisition of assets	2	3
Fair value gains[1]	36	28
Felling costs	(65)	(50)
Reclassification (see note 31)	–	(30)
Currency movements	52	49
At 31 December	**320**	251

Note:
[1] Forestry assets are revalued to fair value less estimated costs to sell each reporting year in accordance with the accounting policy set out in note 1. The fair value is calculated on the basis of future expected cash flows discounted using a discount rate relevant in the local country, based on a pre tax real yield on long-term bonds over the last five years. All fair value gains/(losses) originate from South Africa.

Forestry assets comprise forests with the maturity profile disclosed in the table below:

€ million	2010	2009
Mature	146	118
Immature	174	133
Total forestry assets	**320**	251

Mature forestry assets are those plantations that are harvestable, while immature forestry assets have not yet reached that stage of growth. Plantations are considered harvestable after a specific age depending on the species planted and regional considerations.

14 Investments in associates

€ million	2010	2009
At 1 January	6	5
Net income from associates	2	2
Dividends received	(2)	(2)
Acquisition of associates	8	–
Other	2	1
At 31 December	**16**	6

The Group's total investments in associates comprise:

€ million	2010	2009
Equity[1]	16	6
Total investments in associates	**16**	6

Note:
[1] As at 31 December 2010, there is €2 million of goodwill in respect of associates (2009: €0.5 million).

Notes to the combined and consolidated financial statements
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14 Investments in associates (continued)

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

€ million	2010	2009
Total non-current assets	8	1
Total current assets	33	9
Total current liabilities	(20)	(2)
Total non-current liabilities	(5)	(2)
Share of associates' net assets[1]	**16**	6
Total revenue	30	28
Total operating costs	(27)	(25)
Income tax expense	(1)	(1)
Share of associates' profit for the financial year	**2**	2

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

15 Joint ventures

The Group's share of the summarised financial information of joint venture entities that are proportionately consolidated in the Group's combined and consolidated financial statements is presented as follows:

€ million	2010	2009
Total non-current assets	111	132
Total current assets	56	48
Total current liabilities	(57)	(44)
Total non-current liabilities	(53)	(54)
Share of joint venture entities' net assets, proportionately consolidated	**57**	82
Revenue	152	143
Total operating costs	(162)	(135)
Special items	(1)	–
Net finance costs	(2)	(2)
Income tax expense	9	(1)
Share of joint venture entities' (loss)/profit for the financial year	**(4)**	5

Details of principal joint ventures are set out in note 39.

16 Financial asset investments

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

2010/€ million	Loans and receivables	Available-for-sale investments	Total
At 1 January	10	17	27
Additions	8	3	11
Repayments from related parties	(1)	–	(1)
Repayments – other	(2)	–	(2)
Disposal of assets	–	(3)	(3)
Disposal of businesses (see note 30)	–	(1)	(1)
Other	3	(2)	1
Currency movements	2	–	2
At 31 December	**20**	**14**	**34**

16 Financial asset investments (continued)

2009/€ million	Loans and receivables	Available-for-sale investments	Total
At 1 January	5	14	19
Additions	6	1	7
Movements in fair value	–	1	1
Impairments	–	(1)	(1)
Repayments from related parties	(1)	–	(1)
Repayments – other	(1)	–	(1)
Other	–	2	2
Currency movements	1	–	1
At 31 December	10	17	27

The fair values of available-for-sale investments represent the published prices of the securities concerned. Loans and receivables are held at amortised cost.

17 Inventories

€ million	**2010**	2009
Valued using the first-in-first-out cost formula		
Raw materials and consumables	61	50
Work in progress	8	7
Finished products	37	35
Total valued using the first-in-first-out cost formula	**106**	92
Valued using the weighted average cost formula		
Raw materials and consumables	315	254
Work in progress	49	46
Finished products	232	225
Total valued using the weighted average cost formula	**596**	525
Total inventories	**702**	617
Of which, held at net realisable value	101	96

€ million	**2010**	2009
Combined and consolidated income statement		
Write-downs of inventories to net realisable value	(21)	(18)
Aggregate reversal of previous write-downs of inventories	6	3
Cost of inventories recognised as expense	(2,912)	(2,307)

18 Trade and other receivables

€ million	**2010**	2009
Trade receivables (a)	854	824
Allowance for doubtful debts (b)	(51)	(61)
Net trade receivables	**803**	763
Other receivables	167	152
Prepayments and accrued income	22	18
Total trade and other receivables	**992**	933

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

18 Trade and other receivables (continued)

(a) Trade receivables: credit risk

The Group's exposure to the credit risk inherent in its trade receivables and the associated risk management techniques that the Group deploys in order to mitigate this risk are discussed in note 37. 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 Group operates. Interest is charged at appropriate market rates on balances which are considered overdue in the relevant market.

To the extent that recoverable amounts are estimated to be less than their associated carrying values, impairment charges have been recorded in the combined and consolidated income statement and the carrying values have been written down to their recoverable amounts. The total gross carrying value of these impaired trade receivables as at the reporting date is €116 million (2009: €134 million) and the associated aggregate impairment is €51 million (2009: €61 million).

Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling €47 million (2009: €95 million) which are past due but not impaired as at the reporting date. The Group has assessed these balances for recoverability and believes that their credit quality remains intact. An ageing analysis of these past due trade receivables is provided as follows:

	Trade receivables past due by				
€ million	Less than 1 month	1-2 months	2-3 months	More than 3 months	Total
Carrying value as at 31 December 2010	**28**	**7**	**3**	**9**	**47**
Carrying value as at 31 December 2009	59	16	7	13	95

Included within the Group's aggregate trade receivables balance are debtor balances with customers totalling €6 million (2009: €6 million) where contractual terms have been renegotiated to extend the credit period offered. The Group believes that these balances are fully recoverable and therefore no impairment loss has been recognised.

The Group has entered into certain debt factoring arrangements in which the financial counterparties retain recourse in the event of debtor default. Accordingly, the Group continues to recognise the underlying trade receivables transferred until cash settlement occurs. A concurrent financial liability is also recognised in respect of the obligation to transfer economic benefits to financial counterparties. At the reporting date, trade receivables with a value of €9 million (2009: €3 million) are subject to such factoring arrangements and an associated financial liability of €nil (2009: €1 million) has been recognised.

(b) Movement in the allowance account for bad and doubtful debts

€ million	**2010**	2009
At 1 January	61	50
Increase in allowance recognised in the combined and consolidated income statement	10	11
Amounts written off and recovered during the year	(9)	–
Disposal of businesses	(13)	–
Reclassification	–	(1)
Currency movements	2	1
At 31 December	**51**	61

19 Trade and other payables

€ million	2010	2009
Trade payables	516	462
Amounts owed to related parties	–	1
Tax and social security	68	69
Other payables	123	156
Accruals and deferred income	327	335
Total trade and other payables	**1,034**	1,023

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

20 Borrowings

	2010			2009		
€ million	**Current**	**Non-current**	**Total**	Current	Non-current	Total
Secured						
Bank loans and overdrafts	26	127	153	54	127	181
Other loans	–	–	–	1	1	2
Obligations under finance leases	4	14	18	4	16	20
Total secured	**30**	**141**	**171**	59	144	203
Unsecured						
Bank loans and overdrafts	363	282	645	159	1,144	1,303
Bonds	–	491	491	–	–	–
Other loans	17	123	140	1	133	134
Total unsecured	**380**	**896**	**1,276**	160	1,277	1,437
Total borrowings	**410**	**1,037**	**1,447**	219	1,421	1,640

The maturity analysis of the Group's borrowings, presented on an undiscounted future cash flow basis, is included as part of a review of the Group's liquidity risk within note 37.

Obligations under finance leases

The maturity of obligations under finance leases is:

€ million	2010	2009
Not later than one year	4	5
Later than one year but not later than five years	15	11
Later than five years	2	8
Future value of finance lease liabilities	**21**	24
Future finance charges	(3)	(4)
Present value of finance lease liabilities	**18**	20

Notes to the combined and consolidated financial statements

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20 Borrowings (continued)

Financing facilities

Group liquidity is provided through a range of committed debt facilities which are in excess of the Group's short-term needs. The principal loan arrangements in place include the following:

€1.55 billion Syndicated Revolving Credit Facility (UKRCF)

The UKRCF is a five year multi-currency revolving credit facility which was signed on 22 June 2007. This facility was initially drawn down to refinance existing debt obligations outstanding to the Anglo American plc group prior to demerger. Interest is charged on the balance outstanding at a market-related rate linked to LIBOR. The Group uses interest rate swaps to limit its exposure to adverse movements in LIBOR (see note 37).

€500 million Eurobond

Mondi Finance plc launched its inaugural publicly traded bond, guaranteed by Mondi plc, on 26 March 2010. The €500 million bond, which matures on 3 April 2017, was issued at a discount of €5.63 million and pays a fixed coupon of 5.75% per annum. The bond contains a coupon step up clause whereby the coupon will be increased by 1.25% per annum whilst Mondi fails to maintain at least one investment grade credit rating from either Moody's or Standard & Poor's. Mondi's credit ratings, which have remained unchanged since first published in March 2010, were BB+ (Standard & Poor's) and Baa3 (Moody's). The Moody's credit rating is investment grade.

€160 million Export Credit Agency Facility (ECAF)

The ECAF is used to part finance expansionary capital expenditure in Russia. The facility has an amortising repayment until 2020 and interest is charged on the balance outstanding at a market-related rate linked to LIBOR.

PLN474 million European Investment Bank Facility (EIBF)

The EIBF is used to part finance expansionary capital expenditure at Mondi Świecie in Poland. The facility has an amortising repayment until 2017 and interest is charged at a market-related rate linked to WIBOR.

In addition to the facilities above, the Group has committed facilities amounting to ZAR2.7 billion in South Africa.

The Group's borrowings as at 31 December are analysed by nature and source currency as follows:

2010/€ million	Floating rate borrowings	Fixed rate borrowings	Non-interest bearing borrowings	Total carrying value	Fair value
Euro	262	643	2	907	935
South African rand	367	1	14	382	382
Pounds sterling	13	–	–	13	13
US dollar	–	5	–	5	5
Polish zloty	119	–	–	119	119
Turkish lira	13	–	–	13	13
Other currencies	2	6	–	8	8
Carrying value	**776**	**655**	**16**	**1,447**	
Fair value	**777**	**682**	**16**		**1,475**

20 Borrowings (continued)

2009/€ million	Floating rate borrowings	Fixed rate borrowings	Non-interest bearing borrowings	Total carrying value	Fair value
Euro	817	164	1	982	983
South African rand	342	48	12	402	402
Pounds sterling	10	–	–	10	10
US dollar	4	6	–	10	11
Polish zloty	51	115	–	166	150
Czech koruna	46	–	–	46	46
Other currencies	15	9	–	24	23
Carrying value	1,285	342	13	1,640	
Fair value	1,285	327	13		1,625

In addition to the above, the Group swaps euro debt into other currencies through the foreign exchange market as disclosed in note 37.

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 Group for similar financial instruments.

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

€ million	**2010**	2009
Assets held under finance leases		
Property, plant and equipment	20	16
Assets pledged as collateral for other borrowings		
Property, plant and equipment	230	222
Inventories	79	69
Financial assets	166	165
Other	20	15
Total value of assets pledged as collateral	**515**	487

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

Notes to the combined and consolidated financial statements

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21 Derivative financial instruments

€ million	2010 Asset	2010 Liability	2010 Notional amount	2009 Asset	2009 Liability	2009 Notional amount
Current derivatives						
Held for trading[1]						
Foreign exchange contracts[2]	11	(7)	938	7	(19)	1,102
Interest rate swaps	–	(1)	348	–	(1)	263
Total held for trading	**11**	**(8)**	**1,286**	7	(20)	1,365
Cash flow hedges						
Foreign exchange contracts	–	–	–	–	–	1
Interest rate swaps	–	(1)	50	–	(9)	350
Commodity price derivatives	–	–	–	–	(3)	7
Total cash flow hedges	**–**	**(1)**	**50**	–	(12)	358
Total current derivative financial instruments	**11**	**(9)**	**1,336**	7	(32)	1,723
Non-current derivatives						
Cash flow hedges						
Foreign exchange contracts	3	–	100	–	–	–
Interest rate swaps	–	(15)	245	–	(19)	391
Total non-current derivative financial instruments	**3**	**(15)**	**345**	–	(19)	391

Notes:

1 There were no held for trading derivative assets and liabilities, classified as current in accordance with IAS 1, 'Presentation of Financial Statements', which are due to mature after more than one year, for both the years presented.

2 Of the €938 million (2009: €1,102 million) aggregate notional amount presented, €782 million (2009: €900 million) relates to the economic hedging of foreign exchange exposures on short-term intercompany funding balances, which are fully eliminated on consolidation.

Derivative financial instruments are held at fair value. Appropriate valuation methodologies are employed to measure the fair value of derivative financial instruments.

The notional amounts presented represent the aggregate face value of all foreign exchange contracts, interest rate swaps and commodity price derivatives outstanding at the reporting date. They do not indicate the contractual future cash flows of the derivative instruments held or their current fair value and therefore do not indicate the Group's exposure to credit or market risks. Note 37 provides an overview of the Group's management of financial risks through the selective use of derivative financial instruments and also includes a presentation of the undiscounted future contractual cash flows of the derivative contracts outstanding at the reporting date.

21 Derivative financial instruments (continued)

Hedging

Cash flow hedges

The Group designates certain derivative financial instruments as cash flow hedges. The fair value losses reclassified from the cash flow hedge reserve during the year and matched against the realisation of hedged risks in the combined and consolidated income statement were as follows:

€ million	**2010**	2009
Group revenue	–	(13)
Other net operating expenses	(3)	(14)
Net finance costs	(18)	(19)
Total	**(21)**	(46)

The fair value gains reclassified from the cash flow hedge reserve during the year and matched against the realisation of hedged risks within non-current non-financial assets were as follows:

€ million	**2010**	2009
Property, plant and equipment	–	5
Total	**–**	5

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

Held for trading derivatives

€ million	**2010**	2009
Net fair value gains/(losses) on held for trading derivatives	**17**	(73)

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

22 Provisions

2010/€ million	**Restoration and environmental**	**Acquired contingent liabilities**	**Restructuring costs**	**Long service awards**	**Other**	**Total**
At 1 January	19	–	22	14	30	85
Acquired through business combinations (see note 29)	–	–	2	–	–	2
Charged to combined and consolidated income statement[1]	6	–	27	2	28	63
Released to combined and consolidated income statement	(9)	–	(9)	–	(3)	(21)
Amounts applied	(4)	–	(10)	(1)	(13)	(28)
Disposal of businesses (see note 30)	–	–	–	(1)	(2)	(3)
Reclassification	–	–	1	–	1	2
Currency movements	–	–	–	–	3	3
At 31 December	**12**	**–**	**33**	**14**	**44**	**103**

Note:
[1] Net of unwound discounts.

Notes to the combined and consolidated financial statements

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22 Provisions (continued)

2009/€ million	Restoration and environmental	Acquired contingent liabilities	Restructuring costs	Long service awards	Other	Total
At 1 January	12	1	14	14	23	64
Charged to combined and consolidated income statement[1]	9	–	17	–	12	38
Released to combined and consolidated income statement	(1)	(1)	(1)	–	–	(3)
Amounts applied	(2)	–	(16)	(1)	(7)	(26)
Reclassification	–	–	8	1	–	9
Currency movements	1	–	–	–	2	3
At 31 December	19	–	22	14	30	85

Note:
[1] Net of unwound discounts.

Maturity analysis of total provisions on a discounted basis:

€ million	**2010**	2009
Current	64	40
Non-current	39	45
Total provisions	**103**	85

The restoration and environmental provision represents the best estimate of the expenditure required to settle the obligation to rehabilitate environmental disturbances caused by production operations. A provision is recognised for the present value of such costs. These costs are expected to be incurred over a period in excess of 20 years.

Included within other provisions are amounts relating to onerous contracts and employee benefits. Of these, €30 million (2009: €18 million) are due to be incurred within the next 12 months. The residual €14 million (2009: €12 million) will be incurred over a period longer than one year.

All non-current provisions are discounted using a discount rate relevant in the local countries, based on a pre tax real yield on long-term bonds over the last five years.

23 Deferred tax

Deferred tax assets

€ million	**2010**	2009
At 1 January	29	36
Charged to the combined and consolidated income statement	(3)	(10)
Charged to the combined and consolidated statement of comprehensive income	(1)	–
Disposal of businesses (see note 30)	(4)	–
Reclassification	(1)	1
Currency movements	1	2
At 31 December	**21**	29

23 Deferred tax (continued)

Deferred tax liabilities

€ million	2010	2009
At 1 January	(316)	(292)
Charged to the combined and consolidated income statement	(7)	11
Charged to the combined and consolidated statement of comprehensive income	5	(7)
Disposal of businesses (see note 30)	7	–
Reclassification	1	5
Currency movements	(39)	(33)
At 31 December	**(349)**	(316)

The amount of deferred tax provided in the accounts is presented as follows:

€ million	2010	2009
Deferred tax assets		
Tax losses[1]	44	40
Other temporary differences	(23)	(11)
Total deferred tax assets	**21**	29
Deferred tax liabilities		
Capital allowances in excess of depreciation	(321)	(312)
Fair value adjustments	(90)	(73)
Tax losses	33	51
Other temporary differences	29	18
Total deferred tax liabilities	**(349)**	(316)

Note:
[1] Based on forecast data, the Group believes that there will be sufficient future taxable profits available in the relevant jurisdictions to utilise these tax losses.

The amount of deferred tax (charged)/credited to the combined and consolidated income statement is presented as follows:

€ million	2010	2009
Capital allowances in excess of depreciation	10	(25)
Fair value adjustments	(5)	10
Tax losses	(17)	2
Other temporary differences	2	14
Total (charge)/credit	**(10)**	1

The current expectation regarding the maturity of deferred tax balances is:

€ million	2010	2009
Deferred tax assets		
Recoverable within 12 months	9	8
Recoverable after 12 months	12	21
Total deferred tax assets	**21**	29
Deferred tax liabilities		
Payable within 12 months	(2)	–
Payable after 12 months	(347)	(316)
Total deferred tax liabilities	**(349)**	(316)

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23 Deferred tax (continued)

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

€ million	**2010**	2009
Tax losses – revenue	1,529	1,763
Tax losses – capital	16	16
Other temporary differences	16	2
Total	**1,561**	1,781

Included in unrecognised tax losses, as at 31 December 2010, are losses of €1 million (2009: €1 million) that will expire within one year, €28 million (2009: €62 million) that will expire between one and five years, and €223 million (2009: €148 million) that will expire after five years. A further €1,293 million (2009: €1,568 million) of losses have no expiry date.

No deferred tax liability is recognised on gross temporary differences of €569 million (2009: €515 million) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. A change to UK tax legislation largely exempts from UK tax overseas dividends received on or after 1 July 2009. As a result, the gross temporary differences at 31 December 2010 represent only the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings would still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas tax jurisdictions in which these subsidiaries operate. In addition, the Group would crystallise an STC liability of approximately €20 million (2009: €16 million) on ultimate distribution of its unremitted earnings to external shareholders.

24 Retirement benefits

The Group operates post-retirement defined contribution and defined benefit plans for the majority of its employees. It also operates post-retirement medical plans in South Africa. The accounting policy for pensions and post-retirement benefits is included in note 1.

Defined contribution plans

The assets of the defined contribution plans are held separately in independently administered funds. The charge in respect of these plans of €17 million (2009: €17 million) is calculated on the basis of the contribution payable by the Group in the financial year. There were no material outstanding or prepaid contributions recognised in relation to these plans as at the reporting dates presented.

Defined benefit pension plans and post-retirement medical plans

Only a few of the post-retirement defined benefit plans are funded. The assets of these plans are held separately from those of the Group in independently administered funds, in accordance with statutory requirements or local practice throughout the world. The majority of the post-retirement defined benefit plans are unfunded pension and severance plans which are principally in Europe.

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

24 Retirement benefits (continued)

Actuarial assumptions

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

%	2010 Southern Africa	2010 Europe & International	2009 Southern Africa	2009 Europe & International
Defined benefit pension plan				
Average discount rate for plan liabilities	**8.4**	**4.8-8.3**	9.1	5.2-5.7
Average rate of inflation	**5.6**	**1.9-10.0**	5.6	1.8-10.0
Average rate of increase in salaries	**6.9**	**2.0-10.0**	6.9	1.8-5.5
Average rate of increase of pensions in payment	**5.6**	**0.8-3.5**	5.6	1.8-5.0
Average long-term rate of return on plan assets	**7.6**	**4.0-6.6**	9.7	4.0-6.4
Post-retirement medical plan				
Average discount rate for plan liabilities	**8.4**	**N/A**	9.1	N/A
Expected average increase of healthcare costs	**7.1**	**N/A**	7.1	N/A

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

Mortality assumptions

The assumed life expectations on retirement at age 65 are:

years	2010 Southern Africa	2010 Europe & International	2009 Southern Africa	2009 Europe & International
Retiring today:				
Males	**15.83-17.86**	**17.63-22.60**	15.72-17.66	13.10-22.70
Females	**19.76-22.21**	**21.01-26.39**	19.62-22.01	16.20-25.20
Retiring in 20 years:				
Males	**19.70-20.04**	**21.00-25.10**	19.50-19.58	15.80-25.70
Females	**24.00-24.38**	**24.30-28.70**	23.61-23.80	18.90-28.10

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

Independent qualified actuaries carry out full valuations every three years using the projected credit unit method. The actuaries have updated the valuations to 31 December 2010.

The market value of assets is used to determine the funding level of the plans and is sufficient to cover 110% (2009: 106%) of the benefits which have accrued to members, after allowing for expected increases in future earnings and pensions. Companies within the Group are paying contributions at rates agreed with the schemes' trustees and in accordance with local actuarial advice and statutory provisions.

The majority of the defined benefit pension plans are closed to new members. Consequently, it is expected that the Group's share of contributions will increase as the schemes' members age. The aggregate benefit obligation in respect of the unfunded plans as at 31 December 2010 is €106 million (2009: €109 million).

The total loss, net of applicable tax, recognised in equity relating to experience movements on scheme liabilities and plan assets and actuarial assumption changes, excluding surplus restriction movements, for the year ended 31 December 2010 is €10 million (2009: €9 million). The cumulative total recognised since 1 January 2004 is a loss of €7 million.

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

24 Retirement benefits (continued)

Retirement benefits surplus/(obligation)

The amounts recognised in the combined and consolidated statement of financial position are determined as follows:

€ million	2010 Southern Africa	2010 Europe & International	2010 Total	2009 Southern Africa	2009 Europe & International	2009 Total
Present value of unfunded obligations	(93)	(106)	(199)	(60)	(109)	(169)
Present value of funded obligations	(185)	(134)	(319)	(145)	(120)	(265)
Present value of pension plan liabilities	**(278)**	**(240)**	**(518)**	(205)	(229)	(434)
Fair value of plan assets	225	124	349	177	105	282
Deficit	**(53)**	**(116)**	**(169)**	(28)	(124)	(152)
Surplus restrictions	(31)	–	(31)	(24)	–	(24)
Deficit on pension and post-retirement medical plans	**(84)**	**(116)**	**(200)**	(52)	(124)	(176)
Amounts reported in the combined and consolidated statement of financial position						
Assets						
Retirement benefits surplus	**9**	**2**	**11**	8	–	8
Liabilities						
Retirement benefits obligation:						
Defined benefit pension plans[1]	–	(118)	(118)	–	(124)	(124)
Post-retirement medical plans	(93)	–	(93)	(60)	–	(60)
Total retirement benefits obligation	**(93)**	**(118)**	**(211)**	(60)	(124)	(184)

Note:

[1] Underlying obligations are grossed up for the surpluses that exist.

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

€ million	2010 Pension plans	2010 Post-retirement medical plans	2010 Total plans	2009 Pension plans	2009 Post-retirement medical plans	2009 Total plans
At 1 January	(374)	(60)	(434)	(349)	(50)	(399)
Acquired through business combinations (see note 29)	(6)	–	(6)	–	–	–
Current service cost	(9)	–	(9)	(8)	–	(8)
Past service costs and effects of settlements and curtailments	1	–	1	1	–	1
Interest cost	(27)	(6)	(33)	(22)	(4)	(26)
Actuarial (losses)/gains	(1)	(20)	(21)	(10)	1	(9)
Contributions paid by other members	(1)	–	(1)	(1)	–	(1)
Benefits paid	22	5	27	29	4	33
Disposal of businesses (see note 30)	6	–	6	3	–	3
Reclassification	–	–	–	16	–	16
Currency movements	(36)	(12)	(48)	(33)	(11)	(44)
At 31 December	**(425)**	**(93)**	**(518)**	(374)	(60)	(434)

24 Retirement benefits (continued)

Retirement benefits surplus/(obligation) (continued)

The changes in the fair value of plan assets are as follows:

€ million	Fair value of plan assets 2010	2009
At 1 January	282	235
Acquired through business combinations (see note 29)	4	–
Expected return on plan assets	24	17
Actuarial gains	5	21
Contributions paid by employer	6	5
Contributions paid by other members	1	1
Benefits paid	(13)	(18)
Reclassification	–	(14)
Currency movements	40	35
At 31 December	**349**	282

The expected return on plan assets is based on market expectations, at the beginning of a reporting period, for returns over the entire life of the related pension obligations. Expected returns may vary from one reporting period to the next in line with changes in long-run market sentiment and updated evaluations of historic fund performance.

For the year ended 31 December 2010, the actual return on plan assets in respect of defined benefit pension schemes was a gain of €29 million (2009: gain of €38 million).

The market values of the pension assets in these plans and the long-term expected rates of return as at the reporting dates presented is detailed below:

	Southern Africa		**Europe & International**		**Total**
2010	**Rate of return (%)**	**Fair value (€ million)**	**Rate of return (%)**	**Fair value (€ million)**	**Fair value (€ million)**
Equity	**10.97**	37	**7.51**	55	92
Bonds	**–**	–	**4.65**	56	56
Other	**6.95**	189	**2.05**	12	201
Fair value of plan assets		**226**		**123**	**349**

	Southern Africa		Europe & International		Total
2009	Rate of return (%)	Fair value (€ million)	Rate of return (%)	Fair value (€ million)	Fair value (€ million)
Equity	11.72	69	7.10	49	118
Bonds	–	–	4.66	52	52
Other	8.46	108	5.35	4	112
Fair value of plan assets		177		105	282

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2010

24 Retirement benefits (continued)

Combined and consolidated income statement

The amounts recognised in the combined and consolidated income statement are as follows:

	2010			2009		
€ million	**Pension plans**	**Post-retirement medical plans**	**Total plans**	Pension plans	Post-retirement medical plans	Total plans
Analysis of the amount charged/(credited) to operating profit						
Current service costs	9	–	9	8	–	8
Past service costs	–	–	–	1	–	1
Other amounts credited to profit and loss (curtailments and settlements)	(1)	–	(1)	(2)	–	(2)
Total within operating costs	**8**	**–**	**8**	7	–	7
Analysis of the amount (credited)/charged to net finance costs on plan liabilities						
Expected return on plan assets[1]	(24)	–	(24)	(17)	–	(17)
Interest costs on plan liabilities[2]	27	6	33	22	4	26
Net charge to net finance costs	**3**	**6**	**9**	5	4	9
Total charge to combined and consolidated income statement	**11**	**6**	**17**	12	4	16

Notes:
1 Included in investment income (see note 6).
2 Included in interest expense (see note 6).

Sensitivity analysis

Assured healthcare trend rates have a significant effect on the amounts recognised in the combined and consolidated income statement. A 1% change in assumed healthcare cost trend rates would have the following effects on the post-retirement medical plans:

€ million	1% increase	1% decrease
Effect on the aggregate of the current service cost and interest cost	1	(1)
Effect on the defined benefit obligation	10	(9)

24 Retirement benefits (continued)

The Group's defined benefit pension and post-retirement medical arrangements, for the five years ended 31 December 2010, are summarised as follows:

€ million	2010	2009	2008	2007	2006
Assets					
Defined benefit plans in surplus	**11**	8	–	11	7
Liabilities					
Defined benefit plans in deficit (funded and unfunded)	(118)	(124)	(132)	(129)	(143)
Post-retirement medical plans	(93)	(60)	(50)	(71)	(77)
Total liabilities	**(211)**	(184)	(182)	(200)	(220)
Experience adjustments					
On plan liabilities	(33)	(1)	(17)	3	35
On plan assets	51	21	(34)	4	24
Total experience adjustments	**18**	20	(51)	7	59

25 Other comprehensive income

	2010			2009		
€ million	**Before-tax amount**	**Tax benefit/ (expense)**	**Net-of-tax amount**	Before-tax amount	Tax expense	Net-of-tax amount
Cash flow hedges:	11	(2)	9	26	(6)	20
Fair value losses arising during the year	(10)			(15)		
Less: Reclassification adjustments for losses included in the combined and consolidated income statement	21			46		
Less: Adjustments for amounts transferred to initial carrying amount of hedged items	–			(5)		
Actuarial (losses)/gains and surplus restriction on post-retirement benefit schemes	(18)	6	(12)	7	(1)	6
Gains arising on available-for-sale investments	–	–	–	1	–	1
Exchange differences on translation of foreign operations	193	–	193	118	–	118
Share of other comprehensive income of associates[1]	1	–	1	1	–	1
Total other comprehensive income	**187**	**4**	**191**	153	(7)	146
Attributable to:						
Non-controlling interests	**14**	**–**	**14**	10	(1)	9
Equity holders of the parent companies	**173**	**4**	**177**	143	(6)	137

Note:
[1] Share of other comprehensive income of associates consists of associates' share of exchange differences on translation of foreign operations.

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

26 Asset values per share

Net asset value per share is defined as net assets divided by the combined number of ordinary shares in issue as at the reporting dates presented, less treasury shares held. Tangible net asset value per share is defined as the net assets less intangible assets divided by the combined number of ordinary shares in issue as at the reporting dates presented, less treasury shares held.

Euro	**2010**	2009
Net asset value per share	**6.33**	5.55
Tangible net asset value per share	**5.71**	4.94

27 Share capital and share premium

	Authorised	
	Number of shares	R million
Mondi Limited R0.20 ordinary shares	250,000,000	50
Mondi Limited R0.20 special converting shares	650,000,000	130

	Authorised	
	Number of shares	€ million
Mondi plc €0.20 ordinary shares	3,177,608,605	636
Mondi plc €0.20 special converting shares	250,000,000	50

There has been no change to the authorised share capital of either Mondi Limited or Mondi plc since listing on the respective stock exchanges on 3 July 2007.

		Called up, allotted and fully paid/€ million		
2010	**Number of shares**	**Share capital**	**Share premium**	**Total**
Mondi Limited R0.20 ordinary shares issued on the JSE	146,896,322	3	532	535
Mondi plc[1] €0.20 ordinary shares issued on the LSE	367,240,805	74	–	74
Total ordinary shares in issue	**514,137,127**	**77**	**532**	**609**
Mondi Limited R0.20 special converting shares	367,240,805	8	–	8
Mondi plc €0.20 special converting shares	146,896,322	29	–	29
Total special converting shares[2]	**514,137,127**	**37**	**–**	**37**
Total shares	**1,028,274,254**	**114**	**532**	**646**

		Called up, allotted and fully paid/€ million		
2009	Number of shares	Share capital	Share premium	Total
Mondi Limited R0.20 ordinary shares issued on the JSE	146,896,322	3	532	535
Mondi plc[1] €0.20 ordinary shares issued on the LSE	367,240,805	74	–	74
Total ordinary shares in issue	514,137,127	77	532	609
Mondi Limited R0.20 special converting shares	367,240,805	8	–	8
Mondi plc €0.20 special converting shares	146,896,322	29	–	29
Total special converting shares[2]	514,137,127	37	–	37
Total shares	1,028,274,254	114	532	646

Notes:

1 Mondi plc also issued 50,000 5% cumulative £1 preference shares in 2007. The Group classifies these preference shares as a liability, and not as equity instruments, since they contractually obligate the Group to make cumulative dividend payments to the holders. The dividend payments are treated as a finance cost rather than distributions.

2 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 for both Mondi Limited and Mondi plc ordinary equity holders.

27 Share capital and share premium (continued)

Treasury shares purchased represents the cost of shares in Mondi Limited and Mondi plc purchased in the market and held by the Mondi Incentive Schemes Trust and the Mondi Employee Share Trust respectively to satisfy share awards under the Group's employee share schemes (see note 28). These costs are reflected in the combined and consolidated statement of changes in equity. The number of ordinary shares held by the Mondi Incentive Schemes Trust as at 31 December 2010 was 338,267 shares (2009: 53,700) at an average price of R53.40 per share (2009: R35.71 per share). The number of ordinary shares held by the Mondi Employee Share Trust as at 31 December 2010 was 4,102,373 shares (2009: 5,087,561) at an average price of £4.03 per share (2009: £4.05 per share).

28 Share-based payments

Mondi share awards

The Group has set up its own share-based payment arrangements to incentivise employees. In addition, the Co-Investment Plan has been created for the chief executive officer of the Group. Full details of the Group's share schemes are set out in the remuneration report.

All of these schemes are settled by the award of ordinary shares in either Mondi Limited or Mondi plc. The Group has no legal or constructive obligation to settle the awards made under these schemes in cash. Dividends foregone on BSP share awards are paid in cash upon vesting.

Certain demerger arrangements were instituted prior to, and in anticipation of, the demerger. These arrangements have all vested during the year ended 31 December 2009.

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

€ million	**2010**	2009
Demerger (see note 5)	–	3
Bonus Share Plan (BSP)	5	4
Long-Term Incentive Plan (LTIP)	2	1
Co-Investment Plan	1	–
Total share-based payment expense[1]	**8**	8

Note:

[1] The fair value charges associated with the Co-Investment Plan share award scheme were immaterial for the year ended 31 December 2009.

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

Mondi Limited	**BSP 2008**	**BSP 2009**	**BSP 2010**
Date of grant	31 March 2008	27 March 2009	29 March 2010
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (R)	60.92	18.87	53.06

Mondi Limited	**LTIP 2008**	**LTIP 2009**	**LTIP 2010**
Date of grant	31 March 2008	27 March 2009	29 March 2010
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
EPS component	–	N/A	N/A
ROCE component	–	66	90
TSR component	100	100	25
Grant date fair value per instrument (R)	62.12	19.26	
ROCE component			50.51
TSR component[1]			12.63

Note:

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

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2010

28 Share-based payments (continued)

Mondi plc	BSP 2008	BSP 2009	BSP 2010
Date of grant	31 March 2008	27 March 2009	29 March 2010
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (£)	3.52	0.98	4.68

Mondi plc	LTIP 2008	LTIP 2009	LTIP 2010
Date of grant	31 March 2008	27 March 2009	29 March 2010
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
EPS component	–	N/A	N/A
ROCE component	–	66	90
TSR component	100	100	25
Grant date fair value per instrument (£)	3.56	0.99	
ROCE component			4.43
TSR component[1]			1.11

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

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

	Mondi Limited				
2010/Scheme	**1 January**	**Shares conditionally awarded in year**	**Shares vested in year**	**Shares lapsed in year**	**31 December**
BSP	824,360	383,683	(86,487)	–	1,121,556
LTIP	811,634	292,375	(10,948)	(84,523)	1,008,538
Total	**1,635,994**	**676,058**	**(97,435)**	**(84,523)**	**2,130,094**

	Mondi Limited				
2009/Scheme	1 January	Shares conditionally awarded in year	Shares vested in year	Shares lapsed in year	31 December
BSP	336,503	558,376	(50,826)	(19,693)	824,360
LTIP	264,538	593,883	–	(46,787)	811,634
Transitional BSP	50,936	–	(49,549)	(1,387)	–
Transitional LTIP	23,083	–	(23,083)	–	–
Demerger arrangements	171,868	–	(171,868)	–	–
Total	846,928	1,152,259	(295,326)	(67,867)	1,635,994

28 Share-based payments (continued)

	Mondi plc				
2010/Scheme	**1 January**	**Shares conditionally awarded in year**	**Shares vested in year**	**Shares lapsed in year**	**31 December**
BSP	3,237,228	1,093,468	(671,039)	(19,645)	3,640,012
LTIP	6,878,322	1,381,669	(113,831)	(1,006,381)	7,139,779
Co-Investment Plan	538,795	–	–	–	538,795
Total	**10,654,345**	**2,475,137**	**(784,870)**	**(1,026,026)**	**11,318,586**

	Mondi plc				
2009/Scheme	1 January	Shares conditionally awarded in year	Shares vested in year	Shares lapsed in year	31 December
BSP	1,574,072	2,089,916	(359,406)	(67,354)	3,237,228
LTIP	2,623,854	4,483,836	–	(229,368)	6,878,322
Co-Investment Plan	538,795	–	–	–	538,795
Transitional BSP	147,616	–	(145,898)	(1,718)	–
Transitional LTIP	150,074	–	(150,074)	–	–
Demerger arrangements	2,303,616	–	(2,191,167)	(112,449)	–
Total	7,338,027	6,573,752	(2,846,545)	(410,889)	10,654,345

Combined share award schemes

2010/Entity	**1 January**	**Shares conditionally awarded in year**	**Shares vested in year**	**Shares lapsed in year**	**31 December**
Mondi Limited	1,635,994	676,058	(97,435)	(84,523)	2,130,094
Mondi plc	10,654,345	2,475,137	(784,870)	(1,026,026)	11,318,586
Total	**12,290,339**	**3,151,195**	**(882,305)**	**(1,110,549)**	**13,448,680**

2009/Entity	1 January	Shares conditionally awarded in year	Shares vested in year	Shares lapsed in year	31 December
Mondi Limited	846,928	1,152,259	(295,326)	(67,867)	1,635,994
Mondi plc	7,338,027	6,573,752	(2,846,545)	(410,889)	10,654,345
Total	8,184,955	7,726,011	(3,141,871)	(478,756)	12,290,339

29 Business combinations

To 31 December 2010

In line with Mondi's strategy to strengthen its leading market position in industrial and consumer bags in Europe an agreement was concluded in April 2010 with Smurfit Kappa UK Limited for the acquisition of its western European industrial and consumer bag operations in Spain, France and Italy.

The businesses acquired incurred operating losses prior to their acquisition by Mondi and are subject to restructuring activities. As a result of this and the cash in the business on date of acquisition, a gain on acquisition is recognised in special items in the combined and consolidated income statement. The fair value accounting reflected in these results is provisional in nature. If necessary, adjustments will be made to these carrying values, and to the gain on acquisition, within 12 months of the acquisition date. To date, restructuring costs of €28 million have been incurred (see note 5).

Prior to any planned restructuring activities, the acquired industrial bag plants generated turnover of approximately €7 million per month and underlying operating losses of €0.8 million per month. Had the acquisition occurred on 1 January 2010, the increase in revenue would have been €95 million with a loss after tax of €40 million. Transaction costs of €1 million related to the acquisition are recognised in the combined and consolidated income statement.

There were no other acquisitions made for the year ended 31 December 2010. The deferred acquisition consideration relating to the acquisition in 2007 of Tire Kutsan of €14 million was paid during the current year.

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

€ million	Book value	Revaluation	Fair value
Net assets acquired:			
Property, plant and equipment	27	(13)	14
Inventories	15	–	15
Trade and other receivables	21	(2)	19
Cash and cash equivalents	18	–	18
Trade and other payables	(22)	(1)	(23)
Short-term borrowings	(1)	–	(1)
Retirement benefits obligation	(2)	–	(2)
Provisions	(3)	1	(2)
Net assets acquired	**53**	**(15)**	**38**
Gain arising on acquisition			(34)
Total cost of acquisition			**4**
Cash acquired net of overdrafts			(18)
Payment of deferred acquisition consideration			14
Net cash paid			**–**

29 Business combinations (continued)

To 31 December 2009

There were no major acquisitions made for the year ended 31 December 2009.

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

€ million	Book value	Revaluation	Fair value
Net assets acquired:[1]			
Long-term borrowings	–	2	2
Equity non-controlling interest	3	–	3
Other	(1)	–	(1)
Net assets acquired	2	2	4
Goodwill arising on acquisition			–
Total cost of acquisition			4
Debt consideration			(2)
Net cash paid			2

Note:
[1] The business combinations were not individually material and therefore have not been shown separately.

During the year to 31 December 2010 adjustments totalling €nil have been made to the provisional values estimated of net assets acquired in the year to 31 December 2009.

30 Disposal of subsidiaries and associates

On 5 May 2010, Mondi signed an agreement with the Heinzel Group for the sale of 100% of its shares in Europapier, a paper merchant business selling graphic, packaging and office papers, as well as other office supplies to customers across central Europe and Russia. The tangible fixed assets were subsequently fully impaired (€13 million) on classification as held for sale. The impairment, together with the loss on disposal of the business of €15 million, is recognised in special items in the combined and consolidated income statement. The transaction was concluded on 4 November 2010.

On 8 September 2010, Mondi signed a sale agreement with Hadera Paper Limited to reduce its interest in Mondi Hadera Paper Limited, a non-integrated paper mill in Israel with capacity to produce 145,000 tonnes per annum of office and printing papers, which are predominately sold in the Israeli market, from a 50.1% controlling interest to a 25% non-controlling interest. The remaining 25% non-controlling interest is accounted for as an associate. The gain on disposal of the business of €1 million is recognised in special items in the combined and consolidated income statement. The transaction was concluded on 31 December 2010.

Notes to the combined and consolidated financial statements

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30 Disposal of subsidiaries and associates (continued)

€ million	2010	2009
Net assets disposed:		
Goodwill	1	–
Property, plant and equipment	81	38
Deferred tax assets	4	–
Financial asset investments	1	–
Inventories	80	5
Trade and other receivables	170	34
Cash and cash equivalents	14	–
Assets held for sale[1]	37	19
Short-term borrowings	(45)	(8)
Trade and other payables	(130)	(28)
Current tax liabilities	(2)	–
Provisions	(3)	–
Retirement benefits obligation	(6)	(3)
Deferred tax liabilities	(7)	–
Long-term borrowings	(52)	–
Liabilities directly associated with assets classified as held for sale[1]	(10)	(6)
Total net assets disposed	**133**	51
(Loss)/profit on disposal of subsidiaries (see note 5)	(11)	3
Profit on disposal of associates	–	3
Cumulative translation adjustment reserve realised	12	–
Non-controlling interests disposed	(18)	–
Less: fair value of 25% non-controlling interest retained in Mondi Hadera Paper Limited	(6)	–
Disposal proceeds	**110**	57
Net overdrafts disposed[2]	8	–
Deferred consideration	(18)	–
Net cash inflow from disposals	**100**	57
Net cash inflow from disposal of subsidiaries during the year	**100**	54
Net cash inflow from disposal of associates during the year	**–**	3

Notes:

1 Disposal of assets and liabilities previously classified as held for sale. The carrying value includes all movements since the date of reclassification up to the date of disposal.

2 Bank overdrafts are included in short-term borrowings disposed and netted against cash and cash equivalents disposed to arrive at the net amount of cash disposed as disclosed.

31 Disposal groups and assets held for sale

There were no major disposal groups or assets held for sale as at 31 December 2010.

Details of the aggregate disposal groups and assets held for sale are presented as follows:

€ million	**2010**	2009
Property, plant and equipment	1	5
Forestry assets	–	30
Total non-current assets	**1**	35
Inventories	–	1
Total current assets	**–**	1
Total assets classified as held for sale	**1**	36
Trade and other payables	–	(1)
Total current liabilities	**–**	(1)
Deferred tax liabilities	–	(8)
Total non-current liabilities	**–**	(8)
Total liabilities directly associated with assets classified as held for sale	**–**	(9)
Net assets	**1**	27

32 Consolidated cash flow analysis

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

€ million	**2010**	2009
Profit before tax	**372**	49
Depreciation and amortisation	373	351
Share-based payments	8	5
Non-cash effect of special items	11	98
Net finance costs	117	114
Net income from associates	(2)	(2)
Decrease in provisions and post-employment benefits	(2)	(16)
(Increase)/decrease in inventories	(104)	80
(Increase)/decrease in operating receivables	(130)	170
Increase/(decrease) in operating payables	113	(2)
Fair value gains on forestry assets	(36)	(28)
Felling costs	65	50
Profit on disposal of tangible and intangible assets	(1)	(4)
Other adjustments	(6)	2
Cash generated from operations	**778**	867

Notes to the combined and consolidated financial statements

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for the year ended 31 December 2010

32 Consolidated cash flow analysis (continued)

(b) Cash and cash equivalents

€ million	2010	2009
Cash and cash equivalents per combined and consolidated statement of financial position	83	123
Bank overdrafts included in short-term borrowings	(59)	(86)
Net cash and cash equivalents per combined and consolidated statement of cash flows	**24**	37

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

(c) Movement in net debt

The Group's net debt position, excluding disposal groups is as follows:

€ million	Cash and cash equivalents[1]	Debt due within one year[2]	Debt due after one year	Total net debt
At 1 January 2009	75	(298)	(1,467)	(1,690)
Cash flow	(19)	288	(38)	231
Business combinations (see note 29)	–	–	2	2
Disposal of businesses (see note 30)	–	8	–	8
Reclassification	(19)	(119)	153	15
Currency movements	–	(12)	(71)	(83)
At 31 December 2009	37	(133)	(1,421)	(1,517)
Cash flow	(4)	51	114	161
Business combinations (see note 29)	–	(1)	–	(1)
Disposal of businesses (see note 30)	–	23	52	75
Movement in unamortised loan costs	–	–	(4)	(4)
Reclassification	–	(273)	273	–
Currency movements	(9)	(18)	(51)	(78)
At 31 December 2010	**24**	**(351)**	**(1,037)**	**(1,364)**

Notes:

[1] The Group operates in certain countries (principally South Africa) where the existence of exchange controls may restrict the use of certain cash balances. These restrictions are not expected to have any material effect on the Group's ability to meet its ongoing obligations.

[2] Excludes overdrafts, which are included as cash and cash equivalents. As at 31 December 2010, short-term borrowings on the combined and consolidated statement of financial position of €410 million (2009: €219 million) include €59 million of overdrafts (2009: €86 million).

	Carrying value			
€ million	Cash and cash equivalents	Debt due within one year	Debt due after one year	Total net debt
Disposal groups – 2010 (see note 31)	**–**	**–**	**–**	**–**
Disposal groups – 2009 (see note 31)	–	–	–	–

33 Capital commitments

€ million	2010	2009
Contracted for but not provided	98	214
Approved, not yet contracted for	316	291

These capital commitments will be financed by existing cash resources and borrowing facilities.

Capital commitments are based on capital projects approved to date and the budget approved by the Boards. Major capital projects still require further approval before they commence.

34 Contingent liabilities and contingent assets

Contingent liabilities comprise aggregate amounts as at 31 December 2010 of €20 million (2009: €21 million) in respect of loans and guarantees given to banks and other third parties. Acquired contingent liabilities of €nil (2009: €nil) have been recorded on the Group's combined and consolidated statement of financial position (see note 29).

There are a number of legal and tax claims against the Group. Provision is made for all liabilities that are expected to materialise.

Contingent assets comprise aggregate amounts as at 31 December 2010 of €1 million (2009: €nil) and mainly relate to tax refunds to be received.

35 Operating leases

As at 31 December, the Group had the following outstanding commitments under non-cancellable operating leases:

	2010		2009	
€ million	Forestry assets	Land, buildings and other assets	Forestry assets	Land, buildings and other assets
Expiry date				
Within one year	6	51	4	53
One to two years	11	49	8	52
Two to five years	16	128	11	153
After five years	118	94	95	109
Total operating leases	**151**	**322**	118	367

In addition to the above, the Group entered into a land lease agreement on 1 January 2001 for a total term of 70 years. The operating lease commitment and annual escalation rate are renegotiated every five years. The operating lease charge recorded in the combined and consolidated income statement amounted to €1 million (2009: €1 million). There are 60 years remaining on the lease. The operating lease commitments of this lease are not included in the table above.

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36 Capital management

The Group defines its total capital employed as equity, as presented in the combined and consolidated statement of financial position, plus net debt (see note 32), excluding loans to joint ventures, less financial asset investments.

€ million	**2010**	2009
Total borrowings (see note 32c)	1,388	1,554
Less: Cash and cash equivalents[1] (see note 32c)	(24)	(37)
Net debt (see note 32c)	**1,364**	1,517
Less: Financial asset investments		
Loans and receivables (see note 16)	(20)	(10)
Available-for-sale investments (see note 16)	(14)	(17)
Adjusted net debt	**1,330**	1,490
Equity	**3,224**	2,824
Total capital employed	**4,554**	4,314

Note:

1 Net of overdrafts.

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

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

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

The Group operates a DLC structure which has been agreed with the South African Ministry of Finance and is subject to certain exchange control conditions. The exchange control conditions do not infringe upon the Group's ability to manage its capital structure optimally. However, they do require that the capital supplied by, or made available to, the shareholders of Mondi Limited and Mondi plc, is constrained by the equality of treatment mechanism, which serves to maintain and protect the economic interests of both sets of shareholders. The Group has continually met the exchange control provisions in the past and management is committed to ensuring that the Group continues to meet these provisions in future.

37 Financial risk management

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

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

37 Financial risk management (continued)

Market risk

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

Foreign exchange risk

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

Foreign exchange contracts

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

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

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

Foreign currency sensitivity analysis

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

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37 Financial risk management (continued)

Net monetary foreign currency exposures by functional currency zone

	Net monetary foreign currency exposures – assets/(liabilities)[1]							
2010/€ million	**USD**	**EUR**	**PLN**	**GBP**	**SEK**	**NOK**	**CHF**	**Other**
Functional currency zones:[2]								
US dollar	–	(1)	–	–	–	–	–	–
South African rand	5	1	–	(1)	–	–	–	–
Euro	1	–	(1)	3	2	1	1	2
Russian rouble	1	–	–	–	–	–	–	–
Polish zloty	–	–	–	–	1	–	–	–
Pounds sterling	(3)	–	–	–	–	–	–	–
Swedish krona	–	(1)	–	–	–	–	–	–
Hungarian forint	–	1	–	–	–	–	–	–
Turkish lira	(17)	(20)	–	–	–	–	–	–
Czech koruna	–	(4)	–	–	–	–	–	–
Other	(1)	(12)	–	–	–	–	–	–

	Net monetary foreign currency exposures – assets/(liabilities)[1]							
2009/€ million	USD	EUR	PLN	GBP	SEK	HUF	CZK	Other
Functional currency zones:[2]								
US dollar	–	(1)	–	–	–	–	–	–
South African rand	1	5	–	1	(1)	–	–	(3)
Euro	1	–	2	2	–	1	–	–
Russian rouble	2	(100)	–	–	–	–	–	–
Polish zloty	4	–	–	–	1	–	–	–
Pounds sterling	1	1	–	–	–	–	–	–
Swedish krona	1	(4)	–	–	–	–	–	–
Hungarian forint	–	(3)	–	–	–	–	–	–
Czech koruna	–	(12)	–	–	–	–	–	–
Other	(4)	(41)	–	–	–	–	–	–

Notes:

1 Presented in euros because this is the presentation currency of the Group.

2 Net monetary exposures represent financial assets less financial liabilities denominated in currencies other than the applicable functional currency, adjusted for the effects of foreign exchange risk hedging, excluding cash flow hedging of non-monetary assets and liabilities.

Resultant impacts of reasonably possible changes to foreign exchange rates

The Group believes that for each functional to foreign currency net monetary exposure it is reasonable to assume a 5% appreciation/depreciation of the functional currency. If all other variables are held constant, the table below presents the impacts on the Group's combined and consolidated income statement if these currency movements had occurred.

	Income/(expense)	
2010/€ million	**+5%**	**-5%**
Functional currency zones:		
Turkish lira	2	(2)
Other	1	(1)

	Income/(expense)	
2009/€ million	+5%	-5%
Functional currency zones:		
Russian rouble	5	(5)
Other	2	(2)

37 Financial risk management (continued)

The corresponding fair value impact on the Group's equity, resulting from the application of these reasonably possible changes to the valuation of the Group's foreign exchange contracts designated as cash flow hedges, would have been €nil (2009: €nil). 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 Group holds cash and cash equivalents, which earn interest at a variable rate and has variable and fixed rate debt in issue. Consequently, the Group is exposed to interest rate risk. Although the Group has fixed rate debt in issue, the Group's accounting policy stipulates that all borrowings are held at amortised cost. As a result, the carrying value of fixed rate debt is not sensitive to changes in credit conditions in the relevant debt markets and there is therefore no exposure to fair value interest rate risk.

Management of cash and cash equivalents

Cash and cash equivalents comprise cash in 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 Group's operating units and, in addition, to ensure that the Group earns the most advantageous rates of interest available.

Management of variable rate debt

The Group has multiple variable rate debt facilities, of which the most significant is the syndicated facility, denominated in euros (see note 20). Group treasury uses interest rate swaps to hedge certain exposures to movements in the relevant inter-bank lending rates, primarily the London Interbank Offered Rate (LIBOR) and the Johannesburg Interbank Agreed Rate (JIBAR).

Interest rate swaps are ordinarily formally designated as cash flow hedges and are fair valued at each reporting date. The fair value of interest rate swaps are determined at each reporting date by reference to the discounted contractual future cash flows, using the relevant currency-specific yield curves, and the credit risk inherent in the contract. The Group's cash and cash equivalents also act as a natural hedge against possible unfavourable movements in the relevant inter-bank lending rates on its variable rate debt, subject to any interest rate differentials that exist between corporate saving and lending rates.

Net variable rate debt sensitivity analysis

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

Notes to the combined and consolidated financial statements
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37 Financial risk management (continued)

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

	Interest rate risk exposures and sensitivities							
2010/€ million	**EUR**	**ZAR**	**GBP**	**USD**	**PLN**	**TRY**	**Other**	**Total**
Total debt	**907**	**382**	**13**	**5**	**119**	**13**	**8**	**1,447**
Less:								
Fixed rate debt	(643)	(1)	–	(5)	–	–	(6)	(655)
Non-interest bearing debt	(2)	(14)	–	–	–	–	–	(16)
Cash and cash equivalents	(32)	(24)	(2)	(3)	(2)	(1)	(19)	(83)
Net variable rate debt	**230**	**343**	**11**	**(3)**	**117**	**12**	**(17)**	**693**
Interest rate swaps:								
Floating-to-fixed notionals	(250)	(45)	–	–	–	–	–	(295)
Net variable rate exposure	**(20)**	**298**	**11**	**(3)**	**117**	**12**	**(17)**	**398**
+/- basis points change								
Potential impact on earnings (+50 basis points)	**–**	**(1)**	**–**	**–**	**(1)**	**–**	**–**	**(2)**
Potential impact on earnings (-50 basis points)	**–**	**1**	**–**	**–**	**1**	**–**	**–**	**2**

The potential impact on the Group's combined and consolidated equity resulting from the application of +/- 50 basis points to the interest rate swaps designated as cash flow hedges would be a fair value gain/(loss) of €2 million for the year ended 31 December 2010.

	Interest rate risk exposures and sensitivities							
2009/€ million	EUR	ZAR	GBP	USD	PLN	CZK	Other	Total
Total debt	982	402	10	10	166	46	24	1,640
Less:								
Fixed rate debt	(164)	(48)	–	(6)	(115)	–	(9)	(342)
Non-interest bearing debt	(1)	(12)	–	–	–	–	–	(13)
Cash and cash equivalents	(34)	(39)	(3)	(7)	(2)	(2)	(36)	(123)
Net variable rate debt	783	303	7	(3)	49	44	(21)	1,162
Interest rate swaps:								
Floating-to-fixed notionals	(614)	(47)	–	–	(48)	(45)	–	(754)
Net variable rate exposure	169	256	7	(3)	1	(1)	(21)	408
+/- basis points change								
Potential impact on earnings (+50 basis points)	(1)	(1)	–	–	–	–	–	(2)
Potential impact on earnings (-50 basis points)	1	1	–	–	–	–	–	2

The potential impact on the Group's combined and consolidated equity resulting from the application of +/-50 basis points to the interest rate swaps designated as cash flow hedges would be a fair value gain/(loss) of €5 million for the year ended 31 December 2009.

37 Financial risk management (continued)

In addition to the above, the Group swaps euro debt into other currencies through the foreign exchange market using foreign exchange contracts which has the effect of exposing the Group to interest rates of these currencies. The currencies swapped into and the amounts as at 31 December were as follows:

€ million	**2010**	2009
Long dated contracts with tenures of more than 12 months		
Russian rouble	203	–
Short dated contracts with tenures of less than 12 months		
Russian rouble	123	256
Pounds sterling	75	65
US dollar	74	27
Polish zloty	142	106
Czech koruna	139	47
Swedish krona	96	42
Other	75	21
Total swapped	**927**	564

Credit risk

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

Group's exposure to credit risk

€ million	**2010**	2009
Cash and cash equivalents	83	123
Derivative financial instruments	14	7
Trade and other receivables (excluding prepayments and accrued income)	970	915
Loans and receivables	20	10
Total credit risk exposure	**1,087**	1,055

Credit risk associated with trade receivables

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

Each business segment manages its own exposure to credit risk according to the economic circumstances and characteristics of the relevant markets that they serve. The Group believes that management of credit risk on a devolved basis enables it to assess and manage credit risk more effectively. However, broad principles of credit risk management practice are observed across all business segments, such as the use of credit rating agencies, credit guarantee insurance, where appropriate, and the maintenance of a credit control function. Of the total trade receivables balance of €854 million (2009: €824 million) included in trade and other receivables reported in the combined and consolidated statement of financial position (see note 18), credit insurance covering €526 million (2009: €410 million) of the total balance has been taken out by the Group's trading entities to insure against the related credit default risk. The insured cover is presented gross of contractually agreed excess amounts.

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37 Financial risk management (continued)

Liquidity risk

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

The following table shows the amounts available to draw down on the Group's committed loan facilities.

€ million	**2010**	2009
Expiry date		
In one year or less	44	141
In more than one year	1,437	849
Total credit available	**1,481**	990

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

Contractual maturity analysis

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

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

37 Financial risk management (continued)

Maturity profile of outstanding financial liabilities

2010/€ million	**<1 year**	**1-2 years**	**2-5 years**	**5+ years**	**Total**[1]
Bank loans and overdrafts	389	179	170	60	798
Bonds	–	–	–	491	491
Other borrowings	17	20	60	43	140
Finance leases	4	3	10	1	18
Total borrowings	**410**	**202**	**240**	**595**	**1,447**
Interest on borrowings	76	56	122	71	325
Trade and other payables (excluding tax and social security) (see note 19)	966	–	–	–	966
Total undiscounted cash flows	**1,452**	**258**	**362**	**666**	**2,738**

2009/€ million	<1 year	1-2 years	2-5 years	5+ years	Total[1]
Bank loans and overdrafts	213	284	922	65	1,484
Other borrowings	2	1	37	96	136
Finance leases	4	4	5	7	20
Total borrowings	219	289	964	168	1,640
Interest on borrowings	71	36	50	9	166
Trade and other payables (excluding tax and social security) (see note 19)	954	–	–	–	954
Total undiscounted cash flows	1,244	325	1,014	177	2,760

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

The following table presents the Group's outstanding contractual maturity profile for its derivative financial instruments, which will be settled on a net basis. The amounts disclosed are the contractual undiscounted net cash flows.

Maturity profile of outstanding derivative positions

2010/€ million	**<1 year**	**1-2 years**	**2-5 years**	**Total**[1]
Foreign exchange contracts	–	4	3	7
Interest rate swaps	(11)	(6)	–	(17)
Discounted cash profile of derivatives	**(11)**	**(2)**	**3**	**(10)**
Discounting and interest	(1)	(7)	(14)	(22)
Total undiscounted cash flows	**(12)**	**(9)**	**(11)**	**(32)**

2009/€ million	<1 year	1-2 years	2-5 years	Total[1]
Foreign exchange contracts	(12)	–	–	(12)
Interest rate swaps	(17)	(8)	(4)	(29)
Commodity price derivatives	(3)	–	–	(3)
Discounted cash profile of derivatives	(32)	(8)	(4)	(44)
Discounting and interest	(1)	–	–	(1)
Total undiscounted cash flows	(33)	(8)	(4)	(45)

Note:
[1] It has been assumed that, where applicable, foreign exchange rates prevailing at the reporting date will not vary over the time periods projected.

37 Financial risk management (continued)

Fair value estimation

Financial instruments that are measured in the combined and consolidated statement of financial position at fair value 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).
- level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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 where available and rely as little as possible on Group specific estimates.

The significant inputs required to fair value all of the Group's financial instruments are observable. The Group does not hold any financial instruments categorised as either level 1 or level 3 financial instruments.

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.
- the Group's commodity price derivatives are fair valued by independent third parties, who in turn calculate the fair values as the present value of expected future cash flows based on observable market data.
- other techniques, including discounted cash flow analysis, are used to determine the fair values of other financial instruments.

38 Related party transactions

The Group has a related party relationship with its associates and joint ventures (see note 39). Transactions between Mondi Limited, Mondi plc and their respective subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

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

The DLC executive committee is deemed to compromise the key management personnel of the Group. Their remuneration, including that of the executive directors who serve on this committee, is disclosed in note 4. The remuneration of the directors is disclosed in the remuneration report.

2010/€ million	**Joint ventures**	**Associates**
Sales to related parties	12	5
Dividends received	–	2
Loans to related parties	22	–
Receivables due from related parties	9	–

2009/€ million	Joint ventures	Associates
Sales to related parties	4	–
Loans to related parties	13	–
Receivables due from related parties	6	–

Cyril Ramaphosa, joint chairman of Mondi, has a 33.1% (2009: 34.3%) stake in Shanduka Group (Proprietary) Limited. The Group, in its normal course of business, and on an arm's length basis, enters into various transactions with Shanduka Group (Proprietary) Limited and its subsidiaries, the details of which are disclosed as follows:

38 Related party transactions (continued)

€ million	2010	2009
Fees paid for management services provided	–	0.4
Purchases from Shanduka Group	18.8	12.3
Shareholders' loan due to Shanduka Group	29.4	24.5
Payables due to Shanduka Group	0.7	0.5

39 Group companies

The principal subsidiaries, joint ventures and associates of the Group as at the reporting dates presented, and the Group's percentage of equity owned, together with the Group's interests in joint venture entities are presented below. All of these interests are combined and consolidated within the Group's financial statements. The Group has restricted the information to its principal subsidiaries, as full compliance with Section 409 of the UK Companies Act 2006 would result in a statement of excessive length.

			Percentage equity owned[1]	
	Country of incorporation	Business	2010	2009
Subsidiary undertaking				
Mondi SCP a.s.	Slovakia	Uncoated fine paper	51	51
Mondi AG	Austria	Corrugated and uncoated fine paper	100	100
Mondi Packaging Europe SA	Luxembourg	Corrugated packaging	100	100
Mondi Corrugated Holding Österreich GmbH	Austria	Corrugated packaging	100	100
Mondi Świecie SA	Poland	Virgin containerboard	66	66
Mondi Packaging South Africa (Proprietary) Limited[2]	South Africa	Packaging	70	70
Mondi Tire Kutsan Kağit Ve Ambalaj Sanayi Anonim Şirketi	Turkey	Corrugated packaging	63.4	54
Mondi Syktyvkar OAO	Russia	Uncoated fine paper, containerboard and newsprint	100	100
Mondi Štětí a.s.	Czech Republic	Kraft paper	100	100
Mondi Finance plc	UK	Treasury	100	100
Joint ventures[3]				
Aylesford Newsprint Holdings Limited	UK	Newsprint	50	50
Mondi Shanduka Newsprint[4]	South Africa	Newsprint	50	50

Notes:
1 This represents the percentage of equity owned and the proportion of voting rights held by the Group.
2 Consolidated at 75% due to the contractual arrangement with the subsidiary's employee share ownership trust.
3 The presumption of significant influence over these entities does not apply because the economic activities of these entities are jointly controlled under contractual arrangements that have been entered into with venturer parties.
4 Due to the contractual arrangements with the entity's employee share and community ownership trust, shareholdings are proportionately consolidated at 58%.

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

The Group's share of profits from subsidiary entities, excluding joint ventures, for the year ended 31 December 2010 is €230 million (2009: €38 million).

40 Events occurring after 31 December 2010

With the exception of the proposed final dividend for 2010, included in note 10, there have been no material reportable events since 31 December 2010.

Independent auditor's report to the members of Mondi plc

We have audited the parent company financial statements of Mondi plc for the year ended 31 December 2010 which comprise the balance sheet and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the UK Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibility statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the UK Companies Act 2006.

Opinion on other matters prescribed by the UK Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the UK Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the UK Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the combined and consolidated financial statements of the Mondi Group for the year ended 31 December 2010.

Panos Kakoullis, FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

18 February 2011

Mondi plc parent company balance sheet

as at 31 December 2010

€ million	Notes	2010	2009
Fixed asset investments	5	2,938	2,938
Total non-current assets		**2,938**	2,938
Trade and other receivables		14	13
Cash and cash equivalents		–	9
Total current assets		**14**	22
Total assets		**2,952**	2,960
Trade and other payables		(9)	(5)
Bank overdrafts		(23)	–
Short-term borrowings	6	(1,202)	(1,165)
Total current liabilities		**(1,234)**	(1,170)
Net assets		**1,718**	1,790
Equity			
Ordinary share capital	7/8	103	103
Retained earnings	8	1,602	1,675
Share-based payments reserve	8	13	12
Total equity		**1,718**	1,790

The balance sheet of Mondi plc and related notes were approved by the board and authorised for issue on 18 February 2011 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

Mondi plc company registration number: 6209386

Notes to the Mondi plc parent company financial statements

for the year ended 31 December 2010

1 Accounting policies

Basis of preparation

The financial statements of Mondi plc have been prepared in accordance with UK GAAP and in compliance with the UK Companies Act 2006 under the historical cost convention.

The results, assets and liabilities of Mondi plc are included in the combined and consolidated financial statements of the Mondi Group, which are publicly available.

The financial statements have been prepared on the going concern basis. This is discussed in the business review under the heading 'Going concern'.

Mondi plc has made use of the exemption from preparing a profit and loss account, as conferred by Section 408 of the UK Companies Act 2006.

Mondi plc is also exempt under the terms of FRS 8, 'Related Party Disclosures', from disclosing related party balances, and under the terms of FRS 29, 'Financial Instruments: Disclosures', from disclosing financial instruments and risk management disclosures. Financial instruments and risk management disclosures are presented in the combined and consolidated Group financial statements.

Principal accounting policies

Foreign currency

Foreign currency transactions are translated into euros, Mondi plc's functional and presentation currency, at the rates of exchange prevailing on the dates that transactions are entered into. Associated monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the reporting date. Gains and losses arising on foreign currency transactions and balances are recorded in the profit and loss account.

Tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is provided in full on timing differences which result in an obligation at the reporting date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on a timing difference arising from the undistributed earnings of Mondi plc's direct and indirect subsidiaries, where there is no commitment to distribute these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Distributions

Dividend distributions to the shareholders of Mondi plc are recognised as a liability in the period in which the dividends are authorised and are no longer at the discretion of the board. Final dividends are accrued when approved by the shareholders at the annual general meeting and interim dividends are accounted for when paid.

Investments

Fixed asset investments are stated at cost, less provision for any diminution in value.

Loans and receivables

Loans and receivables are held 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.

1 Accounting policies (continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the proceeds and the redemption value is recognised in profit or loss over the borrowing period using the effective interest rate method.

Share-based payments

Mondi plc operates a number of share-based payment plans for its own staff and staff employed by other Group undertakings. The fair value of an equity instrument granted under such a plan is recorded in the share-based payments reserve incrementally over the contractually-determined vesting period and either recognised as a capital contribution to the employing subsidiaries, where applicable, or within the income statement.

At each reporting date, estimates regarding the future probability of service, and non-market performance conditions being met are revised on a basis consistent with recent experience. Any resultant revisions of original estimates are recorded as an adjustment to the cost of investments in employing subsidiaries or in the income statement, as appropriate, and the share-based payments reserve.

Employing subsidiaries reimburse Mondi plc for the cost of equity instruments granted. Reimbursement receipts represent a return of capital contributed and are treated as a reduction in the cost of investments in employing subsidiaries.

Treasury shares

The purchase by Mondi plc of its own equity instruments, either directly or via an Employee Share Ownership Plan (ESOP) trust over which Mondi plc has de facto control, results in the recognition of treasury shares. The consideration paid is deducted from shareholders' funds and is separately disclosed. Where treasury shares are subsequently sold, reissued, or otherwise disposed of, any consideration received is included in equity attributable to the equity holders of Mondi plc, net of any directly attributable incremental transaction costs and the related tax effects.

Pensions

The cost of defined contribution pension plans is charged as an expense as the costs become payable. Any difference between the payments and the charge is recognised as a short-term asset or liability. Mondi plc does not participate in the Mondi Group's defined benefit pension plans.

2 Employees

The closing number of staff employed by Mondi plc for the year ended 31 December 2010 was 21 (2009: 21). Wages and salaries of €11 million (2009: €11 million) including social security costs of €1 million (2009: €1 million) were incurred in respect of these employees.

3 Auditor's remuneration

Disclosure of the audit fees payable to the auditors for the audit of Mondi plc's financial statements is made in note 3 of the Group's combined and consolidated financial statements.

Notes to the Mondi plc parent company financial statements

continued

for the year ended 31 December 2010

4 Share-based payments

The number of share awards granted by Mondi plc to its employees is presented below:

2010/Scheme	**1 January**	**Shares conditionally awarded in year**	**Shares vested in year**	**Shares lapsed in year**	**31 December**
BSP	498,420	316,635	(91,652)	–	723,403
LTIP	2,472,279	929,259	(55,602)	(429,256)	2,916,680
Co-Investment Plan	538,795	–	–	–	538,795
Total	**3,509,494**	**1,245,894**	**(147,254)**	**(429,256)**	**4,178,878**

The total fair value charge in respect of these awards for the year ended 31 December 2010 was €2 million (2009: €2 million). The share schemes and the underlying assumptions used to estimate the associated fair value charge are discussed in note 28 of the Group's combined and consolidated financial statements.

5 Fixed asset investments

€ million	**2010**	2009
Cost		
At 1 January	2,938	2,938
At 31 December	**2,938**	2,938
Net book value as at 31 December	**2,938**	2,938

6 Short-term borrowings

€ million	**2010**	2009
Amounts owed to Group undertakings	1,202	1,165
Total	**1,202**	1,165

Mondi plc has borrowed funds from other Group undertakings. The borrowings are denominated in euros, carry interest at a floating rate and are repayable on demand. There is no difference between the carrying value and the fair value of these borrowings.

Mondi plc has 50,000 £1 5% cumulative preference shares in issue. The preference shares contractually obligate Mondi plc to make future dividend payments to the holders of these equity instruments and, accordingly, have been recognised as a financial liability.

7 Ordinary share capital

Full disclosure of the share capital of Mondi plc is disclosed in note 27 of the Group's combined and consolidated financial statements.

8 Reconciliation of shareholders' funds

2010/€ million	**Called-up share capital**	**Retained earnings**	**Share-based payments reserve**	**Total**
At 1 January	103	1,675	12	1,790
Mondi share schemes' charge	–	–	6	6
Issue of shares under employee share schemes	–	5	(5)	–
Retained loss after tax	–	(40)	–	(40)
2009 final dividend and 2010 interim dividend	–	(38)	–	(38)
At 31 December	**103**	**1,602**	**13**	**1,718**

2009/€ million	Called-up share capital	Retained earnings	Share-based payments reserve	Total
At 1 January	103	1,716	22	1,841
Mondi share schemes' charge	–	–	8	8
Issue of shares under employee share schemes	–	18	(18)	–
Retained loss after tax	–	(32)	–	(32)
2008 final dividend and 2009 interim dividend	–	(27)	–	(27)
At 31 December	103	1,675	12	1,790

9 Contingent liabilities

Mondi plc has issued financial guarantees in respect of the borrowings of other Group undertakings. The likelihood of these financial guarantees being called is considered to be remote and therefore the estimated financial effect of issuance is €nil (2009: €nil). The fair value of these issued financial guarantees is deemed to be immaterial.

Independent auditors' report to the members of Mondi Limited

Report on the components of the financial statements

We have audited the accompanying statement of financial position and selected notes to the Mondi Limited parent company financial statements for the year ended 31 December 2010.

Directors' responsibility for the components of the financial statements

The Company's directors are responsible for the preparation and fair presentation of the statement of financial position and selected notes in accordance with International Financial Reporting Standards (IFRS), and in the manner required by the Companies Act of South Africa, 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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of financial position and selected notes. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies related to the statement of financial position and selected notes 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, the statement of financial position and selected notes has been prepared, in all material respects, in accordance with the applicable IFRS and the Companies Act of South Africa.

Bronwyn Kilpatrick
Partner
Sandton
18 February 2011

Deloitte & Touche
Registered Auditors
Building 33, Deloitte Place, The Woodlands
Woodlands Drive, Woodmead, Sandton
Republic of South Africa

Mondi Limited parent company statement of financial position

as at 31 December 2010

R million	Notes	2010	2009
Property, plant and equipment		5,653	6,077
Forestry assets		2,101	2,007
Investments in subsidiaries	2	2,397	2,238
Investment in joint venture	3	368	249
Financial asset investments		152	135
Retirement benefits surplus		60	79
Total non-current assets		**10,731**	10,785
Inventories		373	475
Trade and other receivables		1,183	1,160
Investments in subsidiaries	2	77	74
Financial asset investments		22	–
Cash and cash equivalents		8	4
Derivative financial instruments		17	3
Total current assets		**1,680**	1,716
Assets held for sale		10	371
Total assets		**12,421**	12,872
Short-term borrowings		(1,719)	(1,182)
Trade and other payables		(743)	(821)
Provisions		(83)	(59)
Derivative financial instruments		(2)	(1)
Total current liabilities		**(2,547)**	(2,063)
Medium and long-term borrowings		(299)	(1,270)
Retirement benefits obligation		(741)	(584)
Deferred tax liabilities		(1,468)	(1,429)
Provisions		(27)	(31)
Total non-current liabilities		**(2,535)**	(3,314)
Liabilities directly associated with assets classified as held for sale		–	(93)
Total liabilities		**(5,082)**	(5,470)
Net assets		**7,339**	7,402
Equity			
Ordinary share capital	4/5	103	103
Share premium	4/5	5,073	5,073
Retained earnings and other reserves	5	2,163	2,226
Total equity		**7,339**	7,402

The statement of financial position of Mondi Limited and related notes were approved by the board and authorised for issue on 18 February 2011 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

Notes to the Mondi Limited parent company financial statements

for the year ended 31 December 2010

1 Accounting policies

Basis of preparation

The statement of financial position and selected notes of Mondi Limited have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) under the historical cost convention.

Principal accounting policies

The principal accounting policies applied by Mondi Limited are the same as those presented in note 1 to the combined and consolidated Group financial statements, to the extent that the Group's transactions and balances are applicable to a set of the company financial statements. Principally, the accounting policies which are not directly relevant to Mondi Limited parent company financial statements are those relating to consolidation accounting and the recognition and subsequent measurement of goodwill.

The accounting policies which are either different, or additional, to those applied by the Group are stated as follows:

Investments
Investments in subsidiaries and joint ventures are reflected at cost less amounts written off and provisions for any impairments.

Share-based payments
Mondi Limited operates a number of share-based payment plans for its own staff and staff employed by other Group entities. The fair value of an equity instrument granted under such a plan is recorded in the share-based payments reserve incrementally over the contractually-determined vesting period and either recognised as a capital contribution to the employing subsidiaries, where applicable, or within the income statement.

At each reporting date, estimates regarding the future probability of service, and non-market performance conditions being met are revised on a basis consistent with recent experience. Any resultant revisions of original estimates are recorded as an adjustment to the cost of investments in employing Group entities or in the income statement, as appropriate, and the share-based payments reserve.

Employing Group entities reimburse Mondi Limited for the cost of equity instruments granted. Reimbursement receipts represent a return of capital contributed and are treated as a reduction in the cost of investments in employing Group entities.

Accounting estimates and critical judgements

The accounting estimates and critical judgements applied by the key management of Mondi Limited are discussed in the Group's combined and consolidated financial statements (see note 1).

2 Investments in subsidiaries

R million	**2010**	2009
Unlisted		
Shares at cost	255	255
Loans advanced	2,219	2,057
Total investment in subsidiary entities	**2,474**	2,312
Repayable within one year disclosed as a current asset	(77)	(74)
Total long-term investment in subsidiary entities	**2,397**	2,238

3 Investment in joint venture

R million	2010	2009
Mondi Shanduka Newsprint (Proprietary) Limited		
Shareholder's loan	128	128
Mezzanine loan	240	121
Total investment in joint venture	**368**	249
Total long-term investment in joint venture	**368**	249

4 Share capital

2010/R million	Share capital	Share premium	Total
Called-up, allotted and fully paid[1]			
146,896,322 ordinary shares of R0.20 each	29	5,073	5,102
367,240,805 special converting shares of R0.20 each	74	–	74
Total	**103**	**5,073**	**5,176**

2009/R million	Share capital	Share premium	Total
Called-up, allotted and fully paid[1]			
146,896,322 ordinary shares of R0.20 each	29	5,073	5,102
367,240,805 special converting shares of R0.20 each	74	–	74
Total	103	5,073	5,176

Note:
[1] The authorised share capital is disclosed in note 27 of the Group's combined and consolidated financial statements.

Notes to the Mondi Limited parent company financial statements

continued

for the year ended 31 December 2010

5 Reconciliation of movement in equity

R million	Share capital	Share premium	Retained earnings	Other reserves	Total equity
At 1 January 2009	103	5,073	2,114	245	7,535
Dividends paid	–	–	(135)	–	(135)
Total comprehensive income for the year	–	–	(47)	53	6
Mondi share schemes' charge	–	–	–	6	6
Issue of Mondi Limited shares under employee share schemes	–	–	4	(4)	–
Issue of Mondi plc shares under employee share schemes	–	–	–	(1)	(1)
Share options exercised – Anglo American share scheme	–	–	(4)	–	(4)
Shares vested from Mondi Incentive Schemes Trust	–	–	(5)	–	(5)
At 31 December 2009	103	5,073	1,927	299	7,402
Dividends paid	–	–	(157)	–	(157)
Total comprehensive income for the year	–	–	223	(142)	81
Mondi share schemes' charge	–	–	–	10	10
Issue of Mondi Limited shares under employee share schemes	–	–	2	(2)	–
Issue of Mondi plc shares under employee share schemes	–	–	–	(1)	(1)
Share options exercised – Anglo American share scheme	–	–	(1)	–	(1)
Shares vested from Mondi Incentive Schemes Trust	–	–	(1)	–	(1)
Other	–	–	6	–	6
At 31 December 2010	**103**	**5,073**	**1,999**	**164**	**7,339**

6 Contingent liabilities

Contingent liabilities for the Company comprises aggregate amounts as at 31 December 2010 of R74 million (2009: R71 million) in respect of loans and guarantees given to banks and other third parties.

There are a number of legal and tax claims against the Company. Provision is made for all liabilities that are expected to materialise.

There were no significant contingent assets in the Company as at the reporting dates presented.

Group financial record

Financial performance 2006 – 2010[1]

Combined and consolidated income statement

€ million	2010	2009	2008	2007	2006
Group revenue (after inter-segmental revenue elimination)					
Europe & International					
Uncoated Fine Paper	1,387	1,221	1,391	1,489	1,419
Corrugated	1,176	1,005	1,497	1,561	1,411
Bags & Coatings	2,187	1,763	2,116	1,986	1,710
Total Europe & International	4,750	3,989	5,004	5,036	4,540
South Africa Division	369	268	302	224	307
Mondi Packaging South Africa	618	473	447	391	335
Newsprint businesses[2]	491	527	592	590	538
Corporate & other businesses	–	–	–	28	31
Total Group revenue	**6,228**	5,257	6,345	6,269	5,751
Underlying operating profit/(loss)					
Europe & International					
Uncoated Fine Paper	179	146	126	99	89
Corrugated	119	23	49	133	98
Bags & Coatings	133	82	159	154	106
Total Europe & International	431	251	334	386	293
South Africa Division	64	32	111	78	37
Mondi Packaging South Africa	51	36	28	35	35
Newsprint businesses[2]	(4)	12	7	40	29
Corporate & other businesses	(33)	(37)	(39)	(37)	(17)
Underlying operating profit	**509**	294	441	502	377
Special items	(22)	(133)	(387)	6	(82)
Net income from associates	2	2	2	2	5
Total profit from operations and associates	**489**	163	56	510	300
Net finance costs, including special finance item in 2007	(117)	(114)	(159)	(128)	(77)
Profit/(loss) before tax	**372**	49	(103)	382	223
Tax charge	(87)	(52)	(78)	(102)	(94)
Non-controlling interests	(61)	(30)	(30)	(47)	(51)
Profit/(loss) attributable to equity holders of the parent companies	**224**	(33)	(211)	233	78
Underlying earnings[3]	**239**	95	172	241	139

Notes:

1 Prepared on a combined and consolidated basis and in accordance with applicable IFRS.

2 Revenue and underlying operating profit of the Merchant business are included in the results of the Newsprint businesses segment up to its date of disposal. Excluding the revenue and underlying operating profit of the Merchant business, the segment result for the year ended 31 December 2010 would have been €151 million for revenue; and €10 million for underlying operating loss.

3 Underlying earnings is a non-IFRS measure that the Group believes provides a useful alternative basis to the measurement of earnings. Underlying earnings represent the Group's earnings before special items.

Group financial record
continued

Financial performance 2006 – 2010 (continued)

Key performance indicators

	2010	2009	2008	2007	2006
EBITDA margin (%)[1]	**14.2**	12.3	12.8	13.9	12.6
Operating margin (%)[2]	**8.2**	5.6	7.0	8.0	6.6
ROCE (%)[3]	**12.3**	7.6	9.5	10.6	8.1

Notes:
1 EBITDA margin is Group EBITDA divided by Group revenue.
2 Operating margin is Group underlying operating profit divided by Group revenue.
3 ROCE is an annualised measure based on underlying operating profit, plus share of associates' net income, divided by average trading capital employed.

Significant cash flows

€ million	2010	2009	2008	2007	2006
EBITDA[1]	**882**	645	814	870	726
Cash generated from operating activities	**734**	867	795	957	657
Capital expenditure cash outflows[2]	**(394)**	(517)	(693)	(406)	(460)

Notes:
1 EBITDA is Group operating profit before special items, depreciation and amortisation.
2 Excludes business combinations and investments in intangible assets.

Combined and consolidated statement of financial position

€ million	2010	2009	2008	2007	2006
Non-current assets	4,693	4,476	4,208	4,549	4,349
Current assets[1]	1,717	1,609	1,898	2,133	2,075
Total assets	**6,410**	6,085	6,106	6,682	6,424
Current liabilities[2]	(1,185)	(1,159)	(1,154)	(1,248)	(1,055)
Non-current liabilities[3]	(637)	(585)	(566)	(591)	(593)
Total liabilities	**(1,822)**	(1,744)	(1,720)	(1,839)	(1,648)
Net assets excluding net debt	**4,588**	4,341	4,386	4,843	4,776
Equity[4]	2,763	2,399	2,323	2,963	2,966
Non-controlling interests	461	425	373	373	331
Net debt	1,364	1,517	1,690	1,507	1,479
Total equity and net debt	**4,588**	4,341	4,386	4,843	4,776

Notes:
1 Including assets held for sale and excluding cash and cash equivalents and loans to related parties.
2 Including liabilities directly associated with assets classified as held for sale and excluding net debt.
3 Excluding net debt.
4 Prior to demerger in 2007, equity includes the Anglo American plc investment.

Production statistics

Production statistics

		Year ended 31 December 2010	Year ended 31 December 2009
Europe & International			
Uncoated fine paper	Tonnes	1,524,225	1,470,381
Containerboard	Tonnes	1,939,935	1,768,696
Kraft paper	Tonnes	984,607	841,378
Hardwood pulp	Tonnes	935,628	873,844
Internal consumption	Tonnes	825,664	792,768
External	Tonnes	109,964	81,076
Softwood pulp	Tonnes	1,899,518	1,773,265
Internal consumption	Tonnes	1,688,472	1,568,189
External	Tonnes	211,046	205,076
Corrugated board and boxes	Mm^2	1,308	1,697
Industrial bags	M units	3,850	3,303
Coating and release liners	Mm^2	3,187	2,672
Newsprint	Tonnes	197,601	194,564
South Africa Division			
Uncoated fine paper	Tonnes	276,957	353,707
Containerboard	Tonnes	259,785	238,915
Hardwood pulp	Tonnes	589,186	578,032
Internal consumption	Tonnes	366,170	407,641
External	Tonnes	223,016	170,391
Softwood pulp	Tonnes	112,956	109,142
Woodchips	Bone dry tonnes	280,154	273,526
Mondi Packaging South Africa			
Packaging papers	Tonnes	399,344	367,741
Corrugated board and boxes	Mm^2	387	369
Newsprint Joint Ventures (attributable share)			
Aylesford	Tonnes	187,971	191,035
Mondi Shanduka Newsprint (MSN)	Tonnes	126,530	121,701

Exchange rates

	Year ended 31 December 2010	Year ended 31 December 2009
Closing rates against the euro		
South African rand	8.86	10.67
Pounds sterling	0.86	0.89
Polish zloty	3.97	4.10
Russian rouble	40.82	43.15
US dollar	1.34	1.44
Czech koruna	25.06	26.47
Turkish lira	2.07	2.16
Average rates for the period against the euro		
South African rand	9.70	11.68
Pounds sterling	0.86	0.89
Polish zloty	3.99	4.33
Russian rouble	40.27	44.12
US dollar	1.33	1.39
Czech koruna	25.29	26.44
Turkish lira	2.00	2.16

Additional information for Mondi plc shareholders

Introduction

Set out below is a summary of certain provisions of Mondi plc's articles of association ('Articles') and applicable English law concerning companies (the Companies Act 2006). This is a summary only and the relevant provisions of the Articles or the Companies Act should be consulted if further information is required.

Share capital

Mondi plc's issued share capital as at 31 December 2010 comprised 367,240,805 ordinary shares of 20 euro cents each (the 'Ordinary Shares') representing 71.1% of the total share capital, 50,000 5% cumulative preference shares of £1 each (the 'Preference Shares'), 146,896,322 PLC Special Converting Shares of 20 euro cents each representing 28.8% of the total share capital, the Special Rights Share of €1, the PLC Special Voting Share of €1, the UK DAN Share of €1 and the UK DAS Share of €1. Each of the Preference Shares, Special Rights Share, PLC Special Voting Share, UK DAN Share and UK DAS Share represent only a nominal percentage of the total share capital.

The shares are in registered form.

Purchase of own shares

Subject to the provisions of the Articles and the Companies Act, Mondi plc may purchase, or may enter into a contract under which it will or may purchase, any of its own shares of any class, including any redeemable shares.

Ordinary Shares

Dividends and distributions

Subject to the provisions of the Companies Act, Mondi plc may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the board. The board may pay interim dividends whenever the financial position of Mondi plc, in the opinion of the board, justifies such payment.

The board may withhold payment of all or any part of any dividends or other monies payable in respect of Mondi plc's shares from a person with a 0.25% or more interest in nominal value of the issued shares, if such a person has been served with a notice after failure to provide Mondi plc with information concerning interest in those shares required to be provided under the Companies Act.

Voting rights

Subject to any special rights or restrictions attaching to any class of shares, at a general meeting, every member present in person has, upon a show of hands, one vote. Every duly appointed proxy has, upon a show of hands, one vote unless the proxy is appointed by more than one member, in which case the proxy has one vote for and one vote against if (i) the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution or (ii) the proxy has been instructed by one or more members to vote either for or against the resolution and by one or more members to use his discretion as to how to vote. On a poll every member who is present in person or by proxy has one vote for every fully paid share of which he is the holder. In the case of joint holders of a share, the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the shares. Under the Companies Act, members are entitled to appoint a proxy, who need not be a member of Mondi plc, to exercise all or any of their rights to attend and to speak and vote on their behalf at a general meeting or class meeting. A member may appoint more than one proxy in relation to a general meeting or class meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member that is a corporation may appoint one or more individuals to act on its behalf at a general meeting or class meeting as a corporate representative.

Restrictions on voting

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition no member shall be entitled to vote if he has been served with a notice after failure to provide Mondi plc with information concerning interests in those shares required to be provided under the Companies Act.

Deadlines for exercising voting rights

Votes are exercisable at a general meeting of Mondi plc in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Variation of rights

Subject to the Companies Act, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Where, under an employee share plan operated by Mondi plc, participants are the beneficial owners of the shares but not the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participant.

Transfer of shares

All transfers of shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully-paid shares) by or on behalf of the transferee. Transfers of shares which are in uncertificated form are effected by means of the CREST system.

The directors may, in the case of shares in certificated form, in their absolute discretion and without assigning any reason, refuse to register any transfer of shares (not being fully-paid shares) provided that such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis. The directors may also refuse to register an allotment or transfer of shares (whether fully paid or not) in favour of more than four persons jointly. If the directors refuse to register an allotment or transfer they shall, within 30 days after the date on which the letter of allotment or transfer was lodged with Mondi plc, send to the allottee or transferee a notice of the refusal.

The directors may decline to register any instrument of transfer unless: (i) the instrument of transfer is in respect of only one class of share, (ii) when submitted for registration is accompanied by the relevant share certificates and such other evidence as the directors may reasonably require and (iii) it is fully paid.

Subject to the Companies Act and regulations and applicable CREST rules, the directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of the CREST system or that shares of any class should cease to be so held and transferred.

A shareholder does not need to obtain the approval of Mondi plc, or of other shareholders of shares in Mondi plc, for a transfer of shares to take place.

Some of the Mondi plc employee share plans include restrictions on transfer of shares while the shares are subject to such plan.

Preference Shares

The rights and privileges attached to the Preference Shares are as follows: out of the profits available for distribution and resolved to be distributed, the holders of the Preference Shares shall be entitled, in priority to any payment of dividend to the holders of any other class of shares to be paid in respect of each financial year or other accounting period of Mondi plc, to a fixed cumulative preferential dividend (the 'Preferential Dividend').

On a return of capital on winding up, but not on a return of capital on any other class of shares of Mondi plc, otherwise than on a winding up of Mondi plc, the holders of the Preference Shares shall be entitled, in priority to any payment to the holders of any other class of shares, to the repayment of a sum equal to the nominal capital paid-up or credited as paid-up on the

Preference Shares held by them and the accrual (if any) of the Preferential Dividend, whether such dividend has been earned or declared or not, calculated up to the date of the commencement of the winding up.

The holders of the Preference Shares shall only have the right to receive notice of any general meeting of Mondi plc: (i) if and when, at the date of the notice convening such meeting, the Preferential Dividend (as defined in the Articles) on such Preference Shares is six months or more in arrears; or (ii) if a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holders of the cumulative Preference Shares, or for the winding up of Mondi plc, in which case they shall only be entitled to vote on such resolution.

Shares required for the DLC structure

Mondi SCS (UK) Limited, a UK trust company, specially formed for the purpose of the DLC structure, holds the PLC Special Voting Share, the PLC Special Converting Shares, the Special Rights Share, the UK DAN Share and the UK DAS Share. These shares can only be transferred to another UK trust company, in limited circumstances.

The PLC Special Voting Share is a specially created share so that shareholders of both Mondi plc and Mondi Limited effectively vote together as a single decision-making body on matters affecting shareholders of both companies in similar ways, as set out in the Articles.

Prior to a change of control, approval of termination of the sharing agreement (which regulates the DLC), liquidation or insolvency of Mondi plc, the PLC Special Converting Shares have no voting rights except in relation to a resolution proposing the (i) variation of the rights attaching to the shares or (ii) winding up, and they have no rights to dividends. The PLC Special Converting Shares are held on trust for the Mondi Limited ordinary shareholders.

The PLC Special Rights Share does not have any rights to vote or any right to receive any dividend or other distribution by Mondi plc, save in respect to capitalisation of reserves.

Mondi plc and Mondi Limited have established dividend access trust arrangements as part of the DLC. Mondi plc has issued two dividend access shares, the UK DAS Share and UK DAN Share, which enable Mondi plc to pay dividends to the shareholders of Mondi Limited. This facility may be used by the board to address imbalances in the distributable reserves of Mondi plc and Mondi Limited and/or to address the effects of South African exchange controls and/or if they otherwise consider it necessary or desirable.

Directors

Appointment and replacement of directors

Directors shall be no less than four and no more than 20 in number. A director is not required to hold any shares of Mondi plc by way of qualification. Mondi plc may by special resolution increase or reduce the maximum or minimum number of directors.

At each annual general meeting held in each year one-third of the directors, or if their number is not a multiple of three then the number nearest to, but not less than, one-third, shall retire from office. Any further directors to retire shall be those of the other directors subject to retirement by rotation who have been longest in office since their last election or re-election or, if later, deemed election or re-election and so that as between persons who became or were last re-elected directors on the same day, those to retire shall, unless they otherwise agree among themselves, be determined by lot. In casting the lot, the provision that a director must also be a director of Mondi Limited and the corresponding provision of the Mondi Limited Memorandum and Articles shall be observed. A retiring director shall be eligible for re-election.

The board may appoint any person to be a director (so long as the total number of directors does not exceed the limit prescribed in the Articles). Any such director shall hold office only until the next annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting.

Powers of the directors

Subject to the Articles, the Companies Act and any directions given by special resolution, the business of Mondi plc will be managed by the board who may exercise all the powers of Mondi plc.

The board may exercise all the powers of Mondi plc to borrow money and to mortgage or charge any of its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of Mondi plc or of any third party.

Significant agreements: change of control

The articles of association of both Mondi plc and Mondi Limited ensure that a person cannot make an offer for one company without having made an equivalent offer to the shareholders of both companies on equivalent terms.

Pursuant to the terms of the agreements establishing the DLC structure, if either Mondi plc or Mondi Limited serves written notice on the other at any time after either party becomes a subsidiary of the other party or after both Mondi plc and Mondi Limited become subsidiaries of a third party, the agreements establishing the DLC structure will terminate.

All of Mondi plc's share plans contain provisions relating to a change of control. Outstanding awards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

Amendment of the Articles

Any amendments to the Articles of Mondi plc may be made in accordance with the provisions of the Companies Act by way of special resolution.

Shareholder information

Mondi has a dual listed company (DLC) structure comprising Mondi Limited, a company registered in South Africa and Mondi plc, a company registered in the UK. Mondi Limited has a primary listing on the JSE Limited whilst Mondi plc has a premium listing on the London Stock Exchange and a secondary listing on the JSE Limited.

Analysis of shareholders

As at 31 December 2010 Mondi Limited had 146,896,322 ordinary shares in issue, of which 2,527,204 were held as Depositary Interests and Mondi plc had 367,240,805 ordinary shares in issue, of which 181,326,503 were held on the South African branch register.

On 29 November 2010 Mondi Limited gave notice to the Depositary to terminate the Depositary Interest facility and therefore the Deed Poll dated 29 May 2007. The termination of the Depositary Interests takes effect on 7 March 2011.

By size of holding

Mondi Limited

Number of shareholders	% of shareholders	Size of shareholding	Number of shares	% of shares
33,580	94.61	1 – 500	1,023,549	0.70
610	1.72	501 – 1,000	448,424	0.30
607	1.71	1,001 – 5,000	1,302,302	0.89
421	1.19	5,001 – 50,000	8,133,332	5.54
246	0.69	50,001 – 1,000,000	48,611,433	33.09
29	0.08	1,000,001 - highest	87,377,282	59.48
35,493	100.00		146,896,322	100.00

Mondi plc

Number of shareholders	% of shareholders	Size of shareholding	Number of shares	% of shares
5,276	78.81	1 – 500	582,530	0.16
449	6.71	501 – 1,000	322,398	0.09
480	7.17	1,001 – 5,000	1,058,284	0.29
240	3.58	5,001 – 50,000	4,219,629	1.15
205	3.06	50,001 – 1,000,000	45,990,974	12.52
45	0.67	1,000,001 - highest	315,066,990	85.79
6,695	100.00		367,240,805	100.00

By type of holding

Mondi Limited

	No. of holders	No. of shares	% of shares
Public[1]	35,489	146,552,695	99.77
Non-public	4	343,627	0.23
Directors of Mondi Limited/Mondi plc	*3*	*5,360*	*0.00*
Mondi staff share schemes[2]	*1*	*338,267*	*0.23*
Total	35,493	146,896,322	100.00

Mondi plc

	No. of holders	No. of shares	% of shares
Public[1]	6,684	362,474,245	98.70
Non-public	11	4,766,560	1.30
Directors of Mondi Limited/Mondi plc	*9*	*520,253*	*0.14*
Mondi staff share schemes[2]	*2*	*4,246,307*	*1.16*
Total	6,695	367,240,805	100.00

1 As per the Listings Requirements of the JSE Limited.

2 Shares held for the purposes of Mondi staff share schemes are held in trust on behalf of scheme participants.

Registrars

Any queries relating to your Mondi shareholdings should be directed to the relevant Registrar.

	Mondi Limited shares and Mondi plc shares on the South African branch register	Mondi plc shares
Registrar	Link Market Services South Africa (Proprietary) Limited	Capita Registrars
Postal Address	PO Box 4844 Johannesburg South Africa	The Registry 34 Beckenham Road Beckenham Kent BR3 4TU UK
Helpline Number	011 630 0800 (if calling from South Africa) +27 11 630 0800 (if calling from outside South Africa)	0871 664 0300 (if calling from the UK; calls cost 10p per minute plus network extras; lines are open Mon-Fri 8.30am to 5.30pm) +44 208 639 3399 (if calling from outside the UK)

Shareholders holding their shares through Capita may access details of their holdings, amend their details or elect to receive shareholder documents electronically by registering with the Capita Registrars share portal service, an online service offered by Capita, at www.capitashareportal.com.

Shareholder information continued

Financial calendar

5 May 2011	2011 annual general meetings
5 May 2011	Interim management statement
12 May 2011	Payment date for 2010 final dividend (see below)
28 July 2011	2011 half-yearly results announcement
September 2011	2011 interim dividend payment
31 October 2011	Interim management statement

Dividends

Dividend payments

An interim dividend for the year ended 31 December 2010 of 33.35878 rand cents/3.5 euro cents per share was paid on 14 September 2010 to all Mondi Limited and Mondi plc ordinary shareholders on the relevant registers on 27 August 2010.

A proposed final dividend for the year ended 31 December 2010 of 161.32545 rand cents/16.5 euro cents per share will be paid on 12 May 2011 to all Mondi Limited and Mondi plc ordinary shareholders on the relevant registers on 15 April 2011. The final dividend is subject to the approval of the shareholders of Mondi Limited and Mondi plc at the respective annual general meetings scheduled for 5 May 2011.

Dividend timetable

The proposed final dividend for the year ended 31 December 2010 of 16.5 euro cents per share will be paid in accordance with the following timetable:

	Mondi Limited	Mondi plc
Last date to trade shares cum-dividend		
JSE Limited	8 April 2011	8 April 2011
London Stock Exchange	Not applicable	12 April 2011
Shares commence trading ex-dividend		
JSE Limited	11 April 2011	11 April 2011
London Stock Exchange	Not applicable	13 April 2011
Record date		
JSE Limited	15 April 2011	15 April 2011
London Stock Exchange	Not applicable	15 April 2011
Last date for receipt of Dividend Reinvestment Plan (DRIP) elections by Central Securities Depository Participants	21 April 2011	21 April 2011
Last date for DRIP elections to UK Registrar and South African Transfer Secretaries by shareholders of Mondi Limited and Mondi plc	26 April 2011	15 April 2011*
Payment Date		
South African Register	12 May 2011	12 May 2011
UK Register	Not applicable	12 May 2011
DRIP purchase settlement dates	19 May 2011	17 May 2011**
Currency conversion date		
ZAR/euro	21 February 2011	21 February 2011
Euro/sterling	Not applicable	26 April 2011

* 26 April 2011 for Mondi plc South African branch register shareholders
**19 May 2011 for Mondi plc South African branch register shareholders

Share certificates on the South African registers of Mondi Limited and Mondi plc may not be dematerialised or rematerialised between 11 April 2011 and 17 April 2011, both dates inclusive, nor may transfers between the UK and South African registers of Mondi plc take place between 6 April 2011 and 17 April 2011, both dates inclusive.

Dividend currency

All dividends are declared in euro but are paid in the following currencies:

Mondi Limited	South African rand
Mondi plc	euro
Mondi plc (UK residents)	Pounds sterling
Mondi plc (South African residents)	South African rand

Dividend mandate

Shareholders wishing to have their dividends paid directly into a bank or building society account should contact either Link Market Services South Africa (Proprietary) Limited or Capita Registrars as appropriate to obtain an application form. Shareholders holding their shares through Capita can also arrange this via the Capita Registrars share portal service at www.capitashareportal.com.

Mondi Limited shareholders holding their shares on the main register may only set up a mandate if they have a South African bank account.

Mondi plc shareholders located outside the UK may be able to take advantage of the International Payment Service offered by Capita Registrars. A fee of £5 is charged per dividend for this service and is available to private shareholders receiving a dividend of £10 or more. For further information or for an application form please contact Capita.

Dividend reinvestment plans

The dividend reinvestment plans provide an opportunity for shareholders to have their Mondi Limited and Mondi plc cash dividends reinvested in Mondi Limited and Mondi plc ordinary shares respectively.

The plans are available to all Mondi Limited and Mondi plc ordinary shareholders (excluding those in certain restricted jurisdictions). Please note that fees may apply.

For more information or for an application form, please contact either Link Market Services South Africa (Proprietary) Limited or Capita Registrars as appropriate.

Donating shares to charity

For shareholders wishing to dispose of small holdings of shares, the sale of which would be uneconomical, there is the option to donate the shares to charity.

The following charity donation schemes in South Africa and the UK allow shareholders to donate unwanted shares free of charge. These shares are then aggregated, sold and the proceeds distributed to various charities.

South Africa - Strate Charity Shares

If you would like to donate your Mondi Limited shares or Mondi plc shares held on the South African branch register or for further information, please visit www.strate.co.za, call 0800 202 363 if calling from South Africa or +27 11 373 0038 if calling from outside South Africa or write to Strate, PO Box 78608, Sandton 2146, South Africa.

UK - Sharegift

If you would like to donate your Mondi plc shares or for further information, please visit www.sharegift.org, call +44 (0)20 7930 3737 or write to Sharegift, 17 Carlton House Terrace, London SW1Y 5AH, UK.

Shareholder information continued

Account amalgamations

If you receive more than one copy of any documents sent out by Mondi or for any other reason you believe you may have more than one Mondi Limited or Mondi plc account, please contact the relevant Registrar who will be able to confirm and, if necessary, arrange for the accounts to be amalgamated into one.

Fraudulent transactions

Shareholders should be aware that they may be targeted by certain organisations offering unsolicited investment advice. Should you receive any unsolicited calls or documents to this effect, you are advised not to give out any personal details and to report the organisation to the UK Financial Services Authority (FSA). For further information, please visit the FSA's website at www.fsa.gov.uk. Alternatively please call 0845 606 1234 if calling from the UK or +44 20 7066 1000 if calling from outside the UK.

Alternative formats

If you would like to receive this report in an alternative format, such as in large print, Braille or on audio cassette, please contact Mondi's company secretarial department on +44 (0)1932 826300.

Registered and head office

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Registered in South Africa
Registered No. 1967/013038/06

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Registered in England and Wales
Registered No. 6209386

Website: www.mondigroup.com

Glossary of terms

This report contains a number of terms, some of which are particular to the paper and packaging industry.

Annual allowable cut: Volume of timber which can be harvested annually, subject to government regulations and the principles of sustained yield. It is a key part of the management model by which forests can be sustained from generation to generation.

Cartonboard: Paperboard used to produce folding cartons and graphic products like cards and covers.

Chemical pulp: Wood pulp or fibres obtained by digesting and bleaching of woodchips, to remove lignin and other organic materials surrounding cellulose fibres and isolate them for papermaking.

Containerboard: Collective term for kraftliner and/or testliner and fluting, the two basic components used to make the walls of corrugated boxes and cases.

Converting: Process of transforming paper and containerboard into value added products; e.g. wood-free reels into cut-size, or folding containerboard into folding cartons.

Corrugated board: Packing material produced by gluing outer layers of containerboard to a rippled middle layer of fluting.

Corrugated boxes: Boxes produced from corrugated board.

Corrugated packaging: Packaging materials made from corrugated board.

De-inked pulp: Waste-paper pulp produced from used printed paper from which the ink has been removed.

Extrusion-coated: Substrate material (e.g. paper, board, aluminium) coated with a molten web of resin (polymer) to enhance its barrier properties (e.g. to make it waterproof).

Flexible packaging: Papers, cellulose films and aluminium foils primarily used, separately or in combination, for retail food and non-food packaging (e.g. pet food, hygiene product overwrap, detergents) and other specialist uses such as medical, pharmaceutical and tobacco.

Fluting: Raw material used for the rippled middle layer of corrugated board.

Industrial bags: Flexible bags made of paper, typically used to package between 10 and 50 kilograms of powdered, granular or coarse products.

Kraftliner: Containerboard manufactured primarily from virgin fibre.

Kraft paper: Strong paper made from virgin fibre.

Mechanical pulp: Pulp produced by mechanically grinding debarked wood to separate the wood fibre.

Office paper: Uncoated fine paper in cut size (e.g. A4, A3) and other converted products (e.g. forms, computer sheets, coloured papers and envelopes).

Plantations: Selected species of tree planted in regimented lines to maximise yield and ease of management.

Recovered fibre: Used paper and board separately collected for re-use as fibre raw material in paper and board manufacture.

Recycled fibre: Fibre derived from the collection and treatment of waste paper.

Release liners: Protective backing of self-adhesive products, the prerequisite for modern pressure-sensitive adhesive technology (e.g. for self-adhesive tapes, labels, advertising films, diaper tapes, roofing membranes, etc.).

Semi-chemical fluting: Fluting manufactured primarily from virgin fibre.

Testliner: Containerboard manufactured primarily from recycled product.

Uncoated fine paper: Uncoated 'woodfree' paper, produced from chemical pulp and used, for example, in office papers.

Virgin fibre: Fibre derived directly from wood pulp.

Wood pulp: Principal raw material of paper and containerboard. The suitability of certain types of wood pulp for specific products depends upon the type of wood used and the pulping process. Pulp produced from hardwood trees (e.g. eucalyptus, aspen, birch and acacia) has short fibres and is better suited to coated packaging boards, coated and uncoated fine paper and tissues. Softwood (e.g. pine and fir) has long fibres and is generally used for strengthening.

A further glossary of terms used in the sustainable development review is available online at www.mondigroup.com/sustainability.

Financial terms

EBITDA: Operating profit of subsidiaries and joint ventures before special items, depreciation and amortisation.

EBITDA interest cover: EBITDA divided by net debt finance charges (before special financing items).

Gearing: The ratio of net debt to total capital employed.

Group revenue: Total turnover of subsidiaries and proportionate share of joint venture turnover.

Headline earnings: JSE Listings measure, calculated in accordance with Circular 3/2009, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

Net debt: A measure, comprising short-term, medium and long-term borrowings and bank overdrafts less cash and cash equivalents and current financial asset investments.

Net segment assets: Net segment assets are segment assets, consisting of property, plant and equipment, intangible assets, forestry assets, retirement benefits surplus, inventories and operating receivables less segment liabilities, consisting of non-interest bearing current liabilities, restoration and environmental provisions and provisions for post-retirement benefits.

Operating margin: Underlying operating profit divided by Group revenue.

Reported profit/(loss) before tax: Reported profit/(loss) before tax but after special items.

Return on capital employed (ROCE): This is trailing 12 month underlying operating profit, including share of associates' net income, divided by trailing 12 month average trading capital employed and for segments has been extracted from management reports. Capital employed is adjusted for impairments in the year and spend on the strategic projects which are not yet in production.

Shareholders' funds: Share capital, share premium, retained earnings and other reserves attributable to equity holders of the parent companies.

Special items: Those non-recurring financial items which the Group believes should be separately disclosed on the face of the combined and consolidated income statement to assist in understanding the underlying financial performance achieved by the Group and its businesses.

Total equity: Shareholders' funds and non-controlling interests in equity.

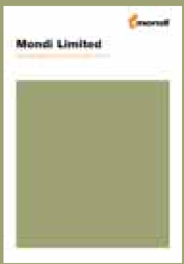
Trading capital employed: Net segment assets plus investment in associates, deferred tax, and other non-operating assets and liabilities excluding financial investments.

Underlying earnings: Net profit after tax before special items attributable to equity holders of the parent companies.

Underlying operating profit: Operating profit of subsidiaries and joint ventures before special items.

Underlying profit before tax: Reported profit before tax and special items.

For further information, please see:



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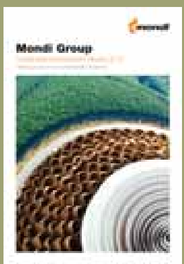

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Forward-looking statements
This document includes forward-looking statements. All statements other than statements of historical facts included herein, including, without limitation, those regarding Mondi's financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Mondi, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Mondi's present and future business strategies and the environment in which Mondi will operate in the future. Among the important factors that could cause Mondi's actual results, performance or achievements to differ materially from those in the forward-looking statements include, but are not limited to, those discussed under Principal risks and uncertainties, on page 31. These forward-looking statements speak only as of the date on which they are made. Mondi expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Mondi's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.