Mondi Group

Integrated report and financial statements 2011

The Mondi Group

Mondi is an international paper and packaging group, with production operations across 28 countries and revenues of €5.7 billion in 2011. The Group's key operations are located in central Europe, Russia and South Africa and as at the end of 2011, Mondi employed 23,400 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 was recognised for its sustainability performance through its inclusion in the FTSE4Good Global, European and UK Index Series (since 2008) and the JSE's Socially Responsible Investment (SRI) Index (since 2007). Mondi was also included in the FTSE350 Carbon Disclosure Leadership Index for the second year.

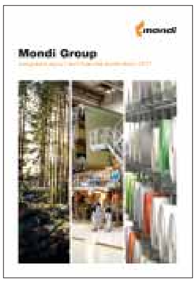
Our integrated report

In 2011, Mondi's integrated report moves towards a more holistic representation of the Group and focuses on those issues that are most material to the business and to our stakeholders, both in respect of financial and non-financial performance. This approach allows stakeholders to better assess the progress we are making towards sustaining value over the short, medium and long term, not only as a business, but also as a corporate citizen. While our integrated report reflects the overall performance of our business, we have continued to produce a more detailed account of our non-financial performance in our printed sustainable development review and full online sustainable development report.

The financial statements in this report have been audited by Deloitte. In addition, ERM CVS has provided limited assurance on a number of key performance indicators (KPIs) as disclosed in our sustainable development review 2011, and reviewed the status of compliance of that report with the Global Reporting Initiative (GRI) guidelines at B+ level. Some of these KPIs have also been reported on within this integrated report. The printed sustainable development review and the ERM CVS assurance statement related to it are available at www.mondigroup.com/sustainability.

Scan to download the report to your smartphone

Integrated report 2011



Sustainable development review 2011

Contents

DIRECTORS' REPORT

FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

57%
increase
in earnings
per share

We are

a leader in packaging and uncoated fine paper, particularly in high-growth emerging markets.

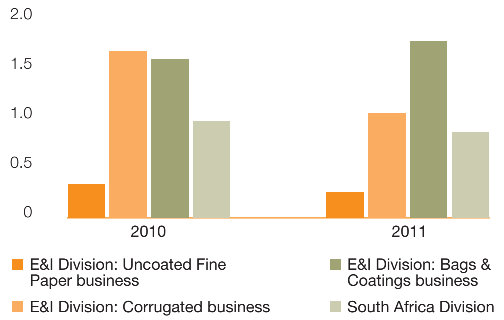
Group performance

Highlights

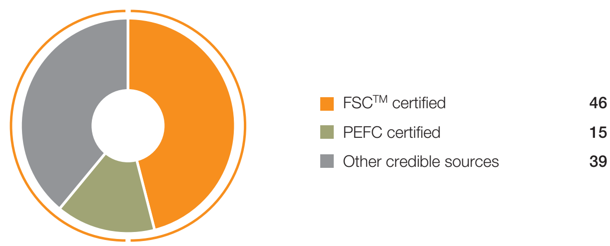
- Record financial performance
  - underlying operating profit up 36%
  - earnings per share – alternative measure up 57%
  - return on capital employed of 15%, significantly in excess of through-the-cycle target of 13%
- Excellent cash generation
  - net debt down 39% to €831 million
  - free cash flow of 72 euro cents per share, up 72%
- Recommended full year dividend of 26.0 euro cents per share, up 30%
- Investment grade credit ratings from Standard & Poor's and Moody's Investors Service
- Successful demerger of Mpact (formerly Mondi Packaging South Africa), further focusing Group strategic priorities
- Significant contribution from Syktyvkar modernisation project
- Key sustainability features
  - total recordable case rate (TRCR) of 0.92 per 200,000 hours worked
  - CO_2e emissions of 5.5 million tonnes
  - total water input of 309 million m^3
  - 25% of landholding in South Africa, 23.5% of leased area in Russia set aside for conservation
  - Green Range accounts for more than 30% of total UFP sales
  - €17.3 million of charitable donations and corporate social investment (CSI) spend
  - 0.3 million tonnes waste to landfill

Syktyvkar, Russia

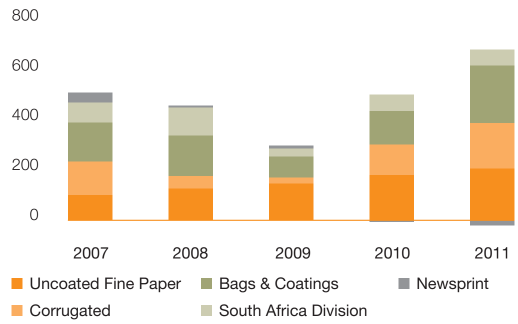
Total recordable case rate (per 200,000 hours worked)



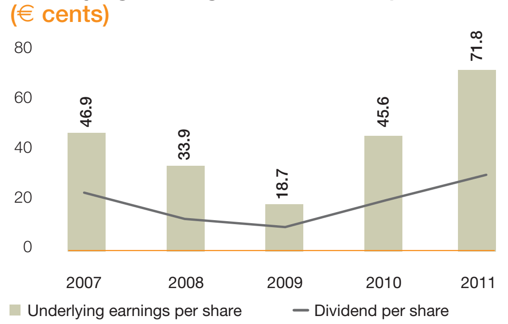
Wood supply
Certified wood (%)



Underlying operating profit
(€ million)



Underlying earnings and dividend per share[1]
(€ cents)



[1] 2011 and 2010 figures are based on the alternative measure (refer note 11 of the financial statements)

Financial summary € million except for percentages and per share measures	Year ended 31 December 2011	Year ended 31 December 2010[1]	Change %
From continuing operations			
Group revenue	**5,739**	5,610	2.3
Underlying EBITDA[2]	**964**	798	20.8
Underlying operating profit[2]	**622**	458	35.8
Underlying profit before tax[2]	**512**	354	44.6
Operating profit	**568**	462	22.9
Profit before tax	**457**	333	37.2
Per share measures			
Basic earnings per share – alternative measure[3] (€ cents)	**71.8**	45.6	57.5
Basic earnings per share from continuing operations (€ cents)	**57.5**	37.8	52.1
Basic earnings per share from total operations (€ cents)	**66.1**	44.1	49.9
Total dividend per share (€ cents)	**26.0**	20.0	30.0
Free cash flow per share[4] (€ cents)	**72.4**	42.2	71.6
Cash generated from operations	**917**	778	17.9
Net debt	**831**	1,364	(39.1)
Group return on capital employed (ROCE)[5]	**15.0%**	12.3%	22.0

1 Comparative information has been restated where appropriate to take cognisance of the discontinued operation.
2 The Group presents underlying EBITDA, operating profit and profit before tax as measures which exclude special items in order to provide a more effective comparison of the underlying financial performance between reporting periods.
3 The directors have elected to present an alternative, non-IFRS measure of earnings per share from continuing operations. As more fully set out in note 11 of the financial statements, the effects of the recapitalisation and the demerger of Mpact (formerly Mondi Packaging South Africa) and the Mondi Limited share consolidation have been adjusted to reflect the position as if the transaction had been completed at the beginning of each period presented. This will enable a useful comparison of earnings per share from continuing operations, based on the consolidated number of shares. Refer to page 160 for details of the pro-forma adjustments.
4 Free cash flow per share is net increase in cash and cash equivalents before changes in net debt and dividends paid divided by the net number of shares in issue at year end.
5 ROCE is underlying operating profit expressed as a percentage of the average capital employed for the year, adjusted for impairments and spend on strategic projects which are not yet in operation.

Chairmen's statement

Cyril Ramaphosa
Joint chairman

David Williams
Joint chairman

Dear stakeholder

We are very pleased to report on a record set of results in a year that started with much improved market conditions but ended with broader macroeconomic weakness, giving rise to some slowdown in demand and pricing pressure across certain of the Group's product areas.

2011 was a momentous year for a number of reasons. The 'Arab Spring' uprisings in the Middle East and North Africa and the earthquake and tsunami in Japan in the first half of the year, coupled with concerns around the US economic recovery, all had a profound effect on the global social, political and economic landscape. More directly affecting Mondi's trading environment, the second half of the year was dominated by the ongoing macroeconomic challenges affecting the Eurozone and the wider European Union, with the threat of sovereign default and the break-up of the Eurozone creating widespread uncertainty in many of the countries in which we operate.

The Group's streamlined, high-quality assets performed very well throughout the year, with the focus on low-cost production and high-growth emerging markets again delivering positive outcomes for our shareholders, despite the more uncertain economic conditions.

Against this backdrop, the Group achieved very pleasing results with underlying operating profit increasing by 36% to €622 million and basic earnings per share – alternative measure – increasing by 57% to 71.8 euro cents per share, confirming the validity of our strategy.

A more detailed review of the Group's performance is set out in the chief executive's review, the chief financial officer's review, the sustainable development review and the business review in this integrated report. As indicated in our chairmen's statement last year, this year's report reflects the international move towards a more integrated approach to reporting, linking business and sustainability performance and contextualising financial performance to provide a balanced perspective of the year's performance to stakeholders. Relevant environmental, social and governance issues are addressed throughout the report to provide a holistic view of Mondi's performance in 2011 and its strategy, risks and opportunities going forward. As Mondi operates in both an industry and in geographic locations where sustainable development is critical to long-term success, we also refer stakeholders to the full sustainable development report (available online at www.mondigroup.com/sustainability).

Paper making and packaging production are technical processes that require significant resources, including wood fibre, water, energy and other materials to produce finished products. Although Mondi manages forests responsibly, we recognise that some of the resources used to produce our products – particularly energy and water – are limited and need to be managed responsibly to create and sustain value. Responsible forestry also has a critical role to play in mitigating climate change. We recognise that biodiversity is a significant concern and that industry, including forestry, needs to take appropriate action. As a Group we are not involved in deforestation or the logging of protected or high conservation value (HCV) areas. All of our forests have achieved FSC™ certification, and we do not source any timber from controversial sources.

Our approach is one of biodiversity stewardship. We believe that our business practices, and our participation in and support of global bodies (WBCSD, FSC™, TFD), as well as our investment in research and development and indeed conservation, enables the Group to make a positive net biodiversity impact. We therefore incorporate social and environmental considerations into our decision-making process.

The Group is highly integrated through the entire product life cycle, from the responsible development and management of forests, to the production and marketing of a variety of paper and packaging products, and finally, to the recycling of paper and packaging for use in our recycled fibre products.

Mondi is committed to strong ethical values and professionalism in all of its activities. As an essential part of this commitment, the boards of Mondi Limited and Mondi plc strive to achieve the highest standards of corporate governance and best practice, and are committed to the principles of transparency, integrity and accountability. Selected information in this report is also assured or audited by independent auditors ERM CVS, for sustainability information, and Deloitte, for the financial statements, respectively. A detailed account of corporate governance within the Group may be found on page 56.

30%
increase in dividend to 26.0 euro cents per share


Świecie, Poland

Chairmen's statement
continued

Mondi's approach to 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 is managed.

At the end of 2010, we concluded our first five-year commitment period and took stock of what we had achieved during this period. We were pleased to report that all our sustainability commitments set in 2005 were met or exceeded, with the exception of a few where we achieved more than 90% of the commitment. We have since established our new set of five-year commitments and report progress on these in our 2011 sustainable development report. Our new commitments take into account material sustainability risks and opportunities facing the Group, matters raised by our stakeholders, and the legal developments with regard to sustainable development.

We engage actively with our stakeholders – shareholders, customers, employees and suppliers as well as governments, non-governmental organisations (NGOs), academic institutions, local communities, certification bodies, regulators and the media in order to understand and respond to their concerns and benefit from their contribution. We do this at a global, national, Group and operation, mill or business unit level. Our approach is one of both informal and formal multi-stakeholder dialogue, and we actively seek regular, transparent engagement. Our formal and fully transparent Socio-Economic Assessment Toolbox (SEAT) process and Community Engagement Plans (CEP) demonstrate our level of engagement in more sensitive areas. We appreciate and benefit from this dialogue and endeavour to maintain open and productive relationships.

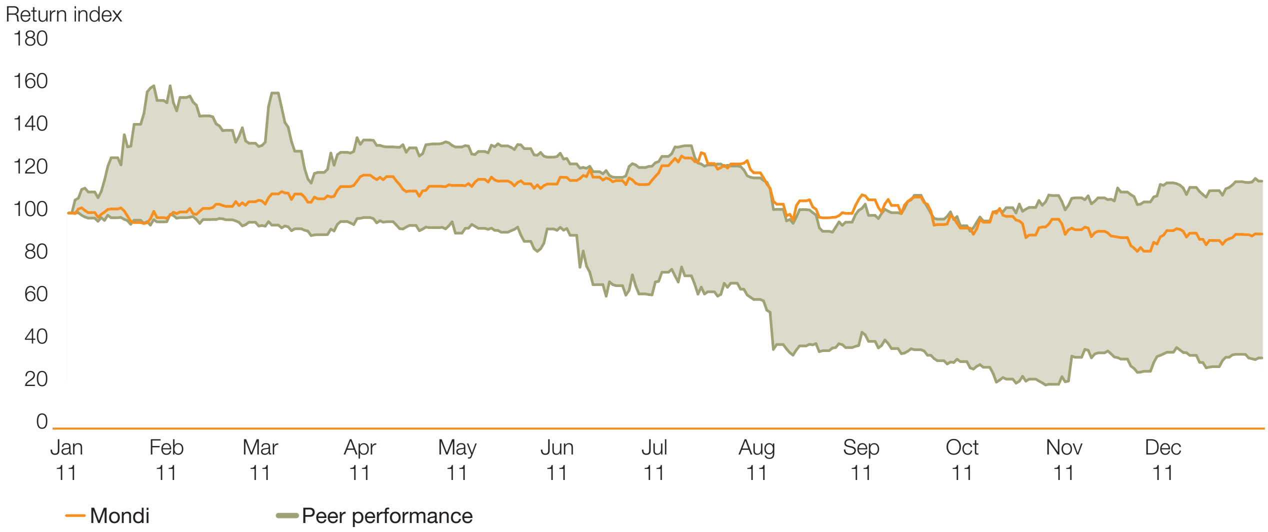
We were very pleased to once again have been included in the LSE's FTSE4Good Index Series membership, and the JSE's Socially Responsible Investment (SRI) Index. Mondi was also included in the Carbon Disclosure Leadership Index (CDLI) by the Carbon Disclosure Project (CDP) for the second year.

Growing shareholder value

2011 was a challenging year for global equity markets, particularly for the paper and packaging sector. Mondi however remains one of the top performing shares in our industry. It is pleasing to report that the Mondi plc share price outperformed the average of our peer group in 2011 and has been in the top quartile of the peer group over the past three years.

We also concluded the demerger of Mpact and the related consolidation of Mondi Limited shares in August of the year under review.

TSR and peer performance during 2011



The Boards' 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 an increase in the final dividend. The boards of Mondi Limited and Mondi plc have recommended a final dividend of 17.75 euro cents per share (2010: 16.5 euro cents per share), payable on 10 May 2012 to shareholders on the register at 13 April 2012. Together with the interim dividend of 8.25 euro cents per share, paid on 13 September 2011, this amounts to a total dividend for the year of 26.0 euro cents per share. In 2010, the total dividend for the year was 20.0 euro cents per share. To shareholders on the South African registers of Mondi Limited and Mondi plc, an equivalent dividend of 78.79484 South African rand cents per share was paid on 13 September 2011 and, together with a final dividend of 181.38548 South African rand cents per share payable on 10 May 2012, the total dividend amounts to 260.18032 South African rand cents per share.

Acknowledgement of our people

The 2011 financial year provided an unpredictable economic backdrop but confirmed Mondi's ability to react appropriately and perform well. This is a fitting reflection of the continued dedication of Mondi's employees across the globe, who have been steadfast and resolute in their pursuit of Mondi's goals, often in challenging circumstances. We acknowledge the ongoing contribution of the Boards, the executive leadership and all employees in the roles they continue to play as we all work together to ensure a sustained and successful future for the Group and our stakeholders. We also thank Colin Matthews, who retired from the Boards and as chairman of the sustainable development committee during the year, for his important contribution, particularly around safety and sustainability issues. We welcome Stephen Harris in his place, and we are confident that his strong engineering background and knowledge of international manufacturing industries will be of particular benefit to Mondi.

Strategy and outlook

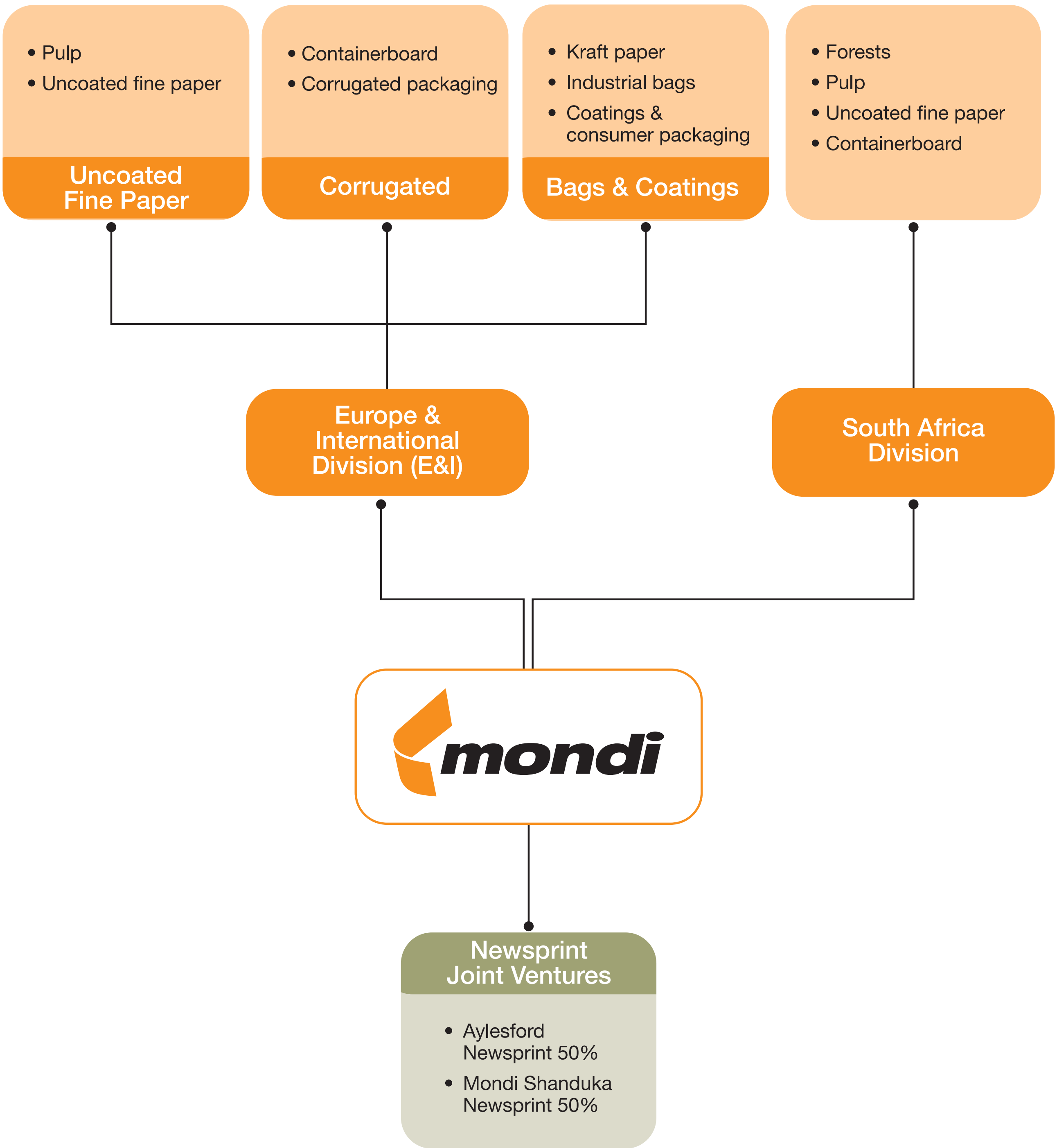
In conclusion, the Mondi Group's stable strategic course in the 2011 financial year facilitated a robust performance in an unpredictable year and places us in a strong position as we move into 2012. While the new year will no doubt continue to present both challenges and opportunities, we are confident in the ability of the businesses to deliver sustainably strong cash flows. Our ongoing intention is to increase returns to shareholders, once we have ensured our asset base remains appropriately invested (including various energy improvement initiatives) and our debt levels are such that we maintain investment grade credit metrics. The Group's product and asset portfolio will continue to be thoroughly assessed to ensure maximum value is achieved across all our operating regions, taking opportunities to strengthen these as appropriate. We will also continue to carefully consider selected value-enhancing growth opportunities.

Mondi's integrated low-cost operations, emerging markets exposure and unrelenting focus on sustainable performance ensure that the Group remains well-positioned to continue generating strong cash flow through the cycle, and adding value for shareholders over the longer term.

Cyril Ramaphosa
Joint chairman

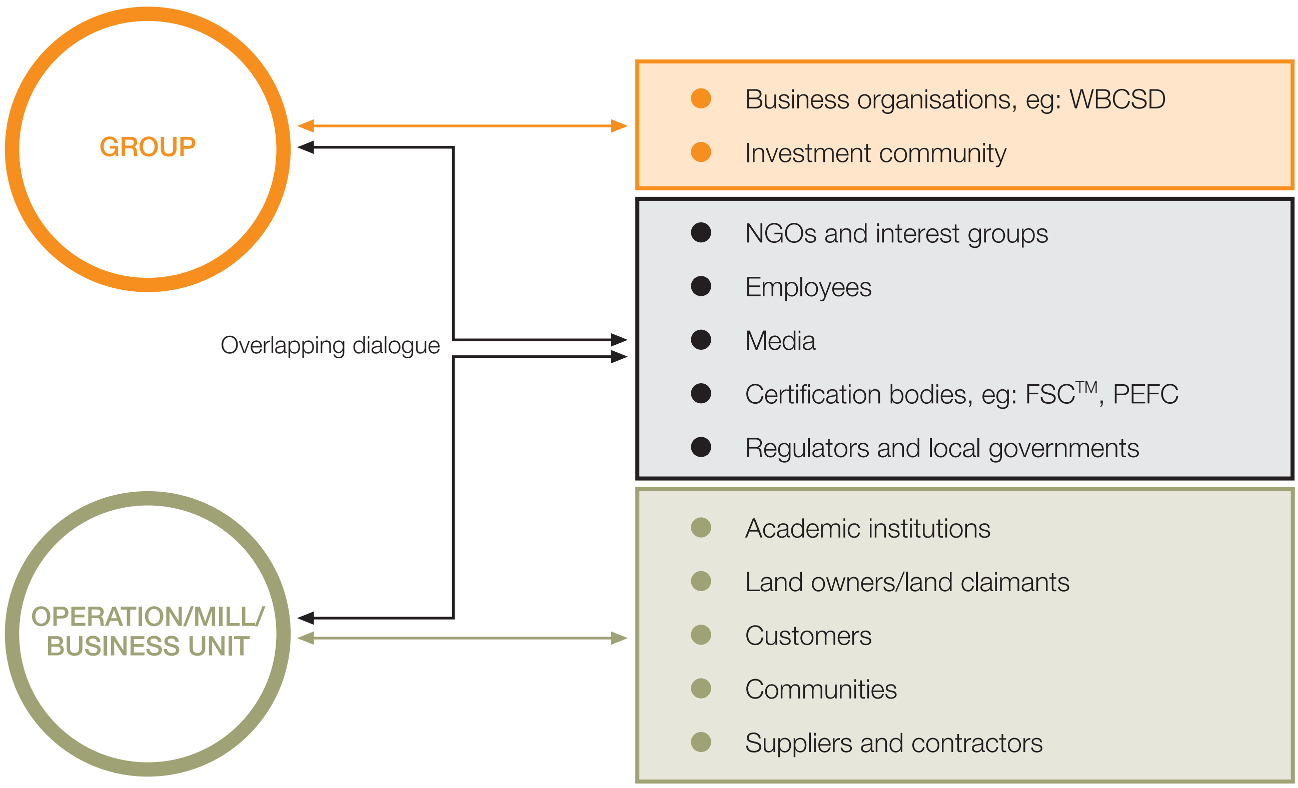
David Williams
Joint chairman

Group profile and structure



Stakeholder engagement

Multi-stakeholder dialogue



We recognise that there is a broad range of stakeholders who have an interest in our Group and its activities, and on whom our operations and products have an impact. There are also those stakeholders whose activities have an impact on our operations and interests, and other stakeholders where co-operation leads to mutual benefit.

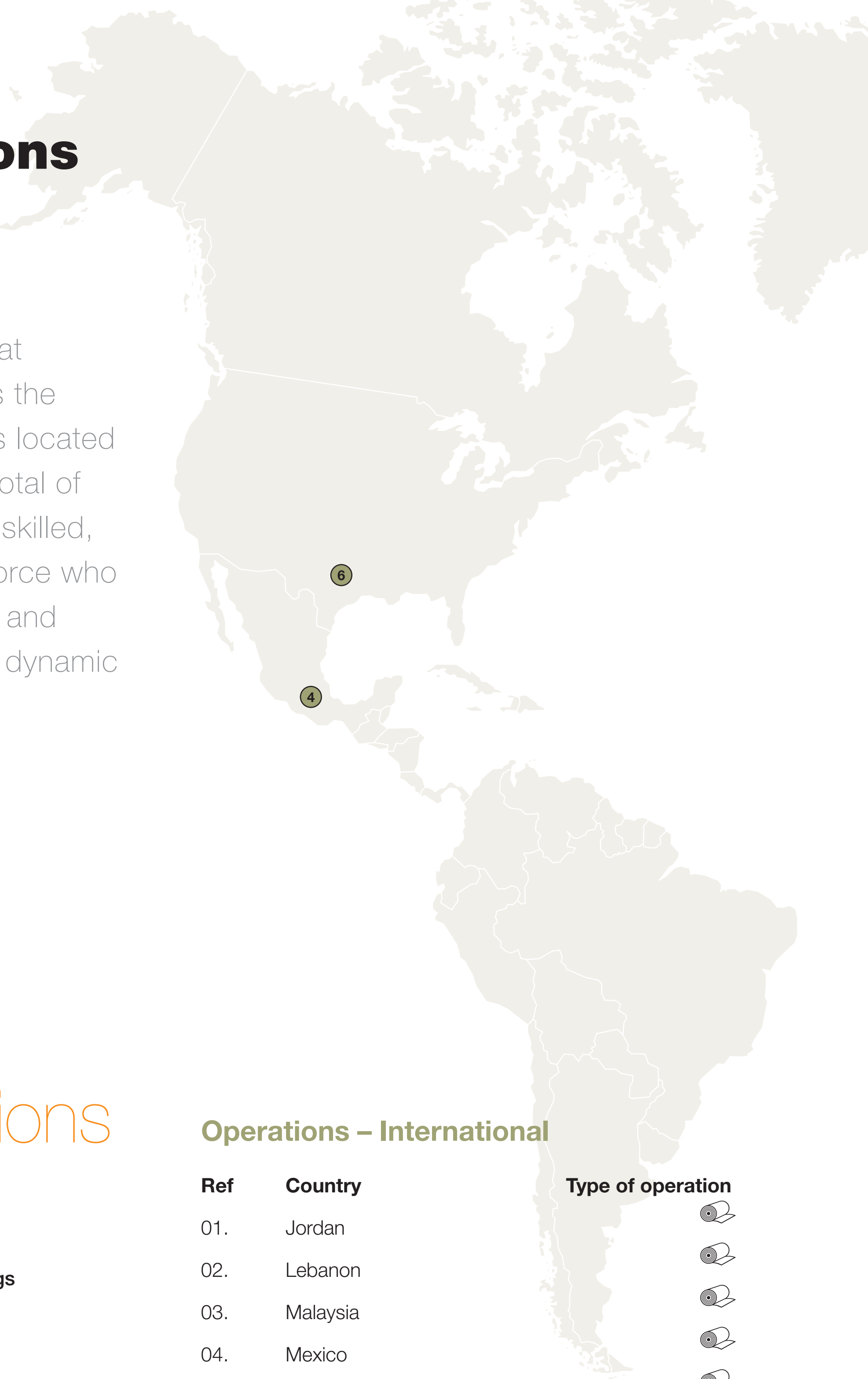
We engage actively with our stakeholders – shareholders, customers, employees and suppliers, as well as governments, non-governmental organisations (NGOs), academic institutions, local communities, certification bodies, regulators, and the media – in order to understand and respond to their concerns and benefit from their contribution.

We do this at a global, national, Group and operation, mill or business unit level.

Our approach is one of both informal and formal multi-stakeholder dialogue, and we seek to engage regularly and transparently. Our formal and fully transparent SEAT process and CEPs demonstrate the level of our engagement in more sensitive areas and FSC™ provides a global standard for monitoring stakeholder engagement.

Please see our sustainable development report for more details on stakeholder engagement – www.mondigroup.com/sustainability.

Global operations



Mondi's operational footprint at 31 December 2011 traverses the globe, with 82 operating sites located in 28 countries employing a total of 23,400 people. Mondi has a skilled, trained and committed workforce who undertake their jobs in a safe and productive manner within the dynamic Mondi culture.

Key to operations

- Corrugated products
- Kraft paper & industrial bags
- Uncoated fine paper
- Coatings & consumer packaging
- Newsprint
- Forests

Operations – International

Ref	Country	Type of operation
01.	Jordan	
02.	Lebanon	
03.	Malaysia	
04.	Mexico	
05.	Oman	
06.	USA	
Total employees		1,100
TRCR		1.50

Operations – Africa

Ref	Country	Type of operation
07.	Morocco	
08.	South Africa	
Total employees		2,000
TRCR		0.87[1]

[1] Excludes Mpact. Including Mpact, TRCR was 0.90.

82 operating sites in 28 countries

Operations – Europe including Russia

Ref	Country	Type of operation	Ref	Country	Type of operation
09.	Austria		19.	The Netherlands	
10.	Belgium		20.	Poland	
11.	Bulgaria		21.	Russia	
12.	Czech Republic		22.	Serbia	
13.	Finland		23.	Slovakia	
14.	France		24.	Spain	
15.	Germany		25.	Sweden	
16.	Greece		26.	Turkey	
17.	Hungary		27.	UK	
18.	Italy		28.	Ukraine	

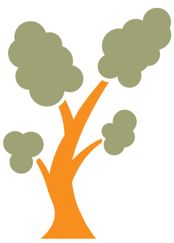
Total employees	20,300
TRCR	0.90

Integrated value chain

Woodchips

Full year production	0.2 million tonnes

Market pulp



Forest

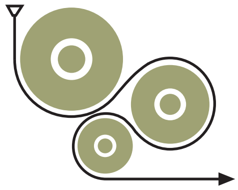
Full year consumption	16.8 million m^3
Potential self-sufficiency	53%
FSC™/PEFC-certified sources	61%

In its South African plantations, Mondi harvests approximately 76,000 trees a day and plants approximately 86,600 seedlings a day.

Pulp mill

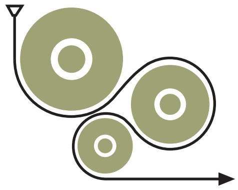
Full year consumption	3.6 million tonnes
Net long position	0.06 million tonnes

Uncoated fine paper mill



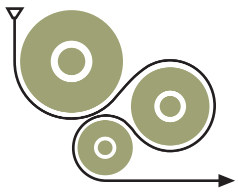
Europe & International	1.40 million tonnes
South Africa	0.23 million tonnes
Full year production	1.63 million tonnes

Kraft paper mill



Europe & International	0.96 million tonnes
Net long position	0.31 million tonnes

Containerboard mill



Europe & International	2.01 million tonnes
South Africa	0.26 million tonnes
Full year production	2.27 million tonnes
Net long position	1.58 million tonnes

Eco-footprint

Total water input	309 million m^3
Energy usage	150 million GJ
CO_2e emissions[1]	5.5 million tonnes
Waste to landfill	0.3 million tonnes

[1] Excludes Mpact

Recovered paper

Full year consumption	1.5 million tonnes

Finishing

Paper production by type

Cut-size	1.19 million tonnes
Other	0.44 million tonnes
Full year production	1.63 million tonnes

Green Range products >30%

Office & printing paper

Kraft paper

Converting plant

Full year production 4.0 billion units

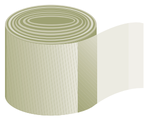
Industrial bags

Converting plant

Full year production 3.4 billion m²

Coatings & consumer packaging

Films



Corrugated box plant

Full year production 1.2 billion m²

Corrugated packaging

Virgin & recycled containerboard

Contribution to Group revenue (%)

Corrugated products	24
Kraft paper & industrial bags	24
Uncoated fine paper	23
Coatings & consumer packaging	15
Pulp	5
Newsprint	4
Other	5

Mondi products

Responsible, effective product stewardship involves actively managing the environmental, safety and health impacts of our products through their life cycle. We base our product stewardship approach on the Life-Cycle Initiative set out in the United Nations Environmental Programme (UNEP).

Pulp

Both hardwood and softwood pulp is produced largely for internal use.

A total of 3.7 million tonnes was produced in 2011 (2010: 3.7 million tonnes).

Uncoated fine paper

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, laser and offset printing. Well-known brands include Color Copy, MAESTRO® and IQ, as well as the Russian Snegurochka and South African ROTATRIM brands.

Virgin & recycled containerboard

A wide-ranging portfolio of corrugated case materials is produced for corrugated packaging applications. Mondi's ProVantage consists of four clusters: Appearance, Kraft, Recycled and Semi Chem Performance.

Our ECO7 containerboard machine in Świecie, Poland combines cost-efficiency with a reduced environmental impact without compromising quality or performance. It produces high-quality, lightweight, recycled fluting and testliner for cost-efficient and environmentally sound packaging. Since the modernised PM21 started operating at our Syktyvkar mill in Russia, Mondi has been delivering white-top kraftliner with improved quality and printability.

Corrugated packaging

Mondi is a leading supplier of corrugated packaging in Europe, with a strong focus on central and south-east Europe. Our portfolio includes conventional boxes and trays, point-of-sale displays, shelf-ready and heavy-duty packaging and is centred on the Eco, Easy and Smart product lines.

Eco-optimised packaging stands for efficient material usage, Easy-optimised focuses on ease of handling and convenient shopping experience, while Smart-optimised packaging incorporates particularly intelligent features such as RFID, going beyond conventional designs.

Kraft paper

Mondi offers an impressive range of kraft papers. Our products are in use everywhere, every day, from specialised packaging and heavy-duty industrial applications to supermarket shelves. The paper comes in a wide range of grades, each catering to the specific requirements of different packaging concepts. Sack kraft paper comprises the most comprehensive range of high-quality grades on the market. The speciality kraft paper portfolio contains a broad range of paper grades for special and customised applications.

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 products, cement, chemicals, seeds, animal feed, flour and milk powder, as well as automotive parts and organic bio-waste.

Our innovative Terra Bag® is the world's first certified biodegradable valve bag and consists of one or two plies of sack kraft paper and an optional ply of biodegradable film.

Coatings & consumer packaging

Mondi is a backward-integrated leader for intelligent paper and plastic-based materials and customer-oriented packaging solutions.

Polymer and biopolymer-based packaging minimises content wastage by extending the product's shelf life and it also ranks among the most energy-efficient and economical delivery methods available.

These products include extrusion coating products, release liners and consumer packaging. Our expertise in extrusion coating, laminating, siliconising and printing enables us to offer customised products for the food, pet food, building, medical and hygiene industries, among others.

Newsprint

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

Green Range

green range
forest water air

The Green Range was first launched in Mondi's UFP business and consists of products from well-managed forests that are all FSC™ or PEFC certified, some of which are totally chlorine free (TCF) or 100% recycled.

In 2010, the Green Range was extended to smart packaging products including for instance Sustainex® biodegradable packaging, the Terra Bag, Advantage One sack kraft paper and the Eco corrugated packaging line.

Carbon neutral products

The NAUTILUS® SuperWhite carbon neutral office paper range provides customers with the option to reduce their impact on climate change by reducing their carbon footprint during the product life cycle.

Chief executive's review

Setting the context for our performance

Mondi's focus on leading positions, primarily in low-cost, high-growth markets, has enabled us to deliver record results despite challenging market conditions in the second half of the year. Fundamentals for each of the Group's core grades remain good, with limited exposure to grades suffering sectoral decline as our strategic portfolio is weighted towards markets that continue to enjoy structural demand growth. In terms of packaging, demand dynamics are favourable as, aside from sack kraft, there are no major substitution threats, while emerging markets enjoy particularly robust demand growth. On the UFP side, although the market is structurally mature in western Europe, emerging market expectations remain encouraging.

In the second half of 2011, broader macroeconomic weakness and destocking gave rise to some slowdown in demand and moderate pricing pressure across certain of the Group's product areas. We responded by taking production downtime to manage inventory levels. Encouragingly, we have recently seen an improvement in orders and all operations are expected to return to full production during the first quarter of 2012.

It is important that across the paper and packaging industry, restraint is shown in managing capacity to ensure that supply is in line with demand, particularly in those grades that are in sectoral decline in the mature western markets. Mondi has already completed a number of restructuring actions over the past few years and we will continue to regularly assess our product and asset portfolio to ensure maximum value is achieved. Although selected growth clearly remains an option, we will continue to be disciplined around acquisitions and expansionary capital expenditure, with a focus in 2012 on energy efficiency improvement projects.

Overview of Mondi's performance in 2011

The Group's robust financial position, low-cost operating model, and focus on performance enabled Mondi to deliver record results in 2011. The Group's return on capital employed (ROCE) of 15% for the year was significantly above our through-the-cycle target of 13%. The year was one of two halves, largely driven by the changes in the European macroeconomic environment in the second half and the consequent impact on our order books. Our results clearly reflect this, with our performance in the second half somewhat weaker than our record first half performance.

In the first half of 2011, our strong results were delivered in positive market conditions. Our operations ran well and the major investments at Syktyvkar in Russia and Świecie in Poland contributed significantly to profitability. The demerger of Mpact was approved by shareholders on 30 June 2011 and was effected on 18 July 2011, with Mpact having commenced trading as an independent listed entity on 11 July 2011. The related consolidation of Mondi Limited shares was concluded during August 2011 with the total number of shares in issue (Mondi Limited and Mondi plc) reducing to 482 million.

Mondi is delighted to have had investment grade credit ratings confirmed by both Moody's Investors Service (Baa3 positive outlook) and Standard & Poor's (upgraded to BBB- stable outlook) during the period.

In the second half of 2011, most parts of our business continued to perform well, albeit against a backdrop of more challenging market positions, ultimately delivering a full year underlying operating profit of €622 million. Basic earnings per share – alternative measure – increased by 57% to 71.8 euro cents per share. Cash generated from operations of €917 million in 2011 enabled us to ensure that our asset base continued to be appropriately invested, net debt was reduced to €831 million at the end of the year, and returns to shareholders were increased. The directors have recommended a final dividend of 17.75 euro cents per share, bringing the total dividend to 26.0 euro cents per share for the year.

The Group's safety performance in 2011 left me deeply concerned, with two people losing their lives while at work in our operations – one in the US involving an employee conducting maintenance work to equipment and the other a contractor in South Africa at one of our forestry operations. Thorough investigations were undertaken following these incidents to ascertain the factors contributing to their occurrence, and to ensure that suitable management action plans are in place. On behalf of everyone at Mondi, I extend our sincere condolences to their families and colleagues.

Notwithstanding these tragedies, we are encouraged by the outstanding safety performance in so many areas of our business and we are more determined than ever to make zero harm more than just a goal across our business. As leaders,

15%
ROCE significantly exceeds target

Syktyvkar, Russia

Chief executive's review

continued

we consider the safety of our people as our top priority and we know that our own behaviour and every decision we take must be consistent with our safety culture. We do not tolerate unsafe behaviour at Mondi, and we have reinforced the message to all employees and contractors that it is everyone's right and responsibility to stop working if they believe conditions are unsafe in any way and to challenge colleagues who they believe are acting unsafely.

Creating long-term value

We aim to create and sustain long-term value for our stakeholders by transforming renewable resources into innovative product solutions that meet customer needs in a responsible, cost-effective and sustainable way. To achieve this, we rely on our competitive strengths, our people, our well-developed business systems and our relationships with customers and other stakeholders. We do not want our business to profit at the expense of the environment or society, and therefore acting with integrity is one of our key values.

We are committed to engage actively with our stakeholders through multi-stakeholder dialogue at a Group and industry level. Our stakeholders are many and varied – shareholders, customers, employees and suppliers as well as governments, NGOs, academic institutions, local communities, certification bodies, regulators and the media. We report more on stakeholder engagement on page 11 of this report.

Managing our risks

Risk is an inherent part of our business, and identifying and managing risk is critical to our success. A Group-wide risk management framework ensures the effective governance of significant risks, which are those with the potential to have an impact on the achievement of commitments or strategic plans. The competitive markets in which we operate, and the current macroeconomic challenges, are our most significant risks. These risks are pro-actively managed through a flexible and dynamic approach to changing market and operating conditions and a deliberate investment strategy to mitigate regional and country specific risks to limits considered acceptable by our Boards. We report in more detail on our risks on page 24.

In 2011, we put more emphasis on structuring our reporting in line with the material sustainable development issues we have identified. We incorporated inputs from various sources including shareholder feedback, media requests and coverage, peer report reviews, issues raised by NGOs at an international and local level, as well as community concerns. The result has been the determination of six material issues for the business, and our sustainable development reporting is structured accordingly. See page 34 for further details.

The most significant sustainability challenge for the business remains our need to secure access to sustainable fibre in the short, medium and long-term. Not only do we believe that operating the business in a sustainable, responsible way is the right thing to do, we firmly believe that there is a fundamental business case for sustainable development.

Mondi is committed to FSC™ certification of all our owned, leased and managed forests in Russia and South Africa; and to no wood being procured from controversial sources, as well as all mills being certified to Chain-of-Custody (CoC) standards from FSC™, PEFC or a credible alternative. We are very pleased to be able to report again that we have achieved this.

We acknowledge that our operations can and do have an impact on our surrounding natural environments and we have implemented strategies to minimise the extent of this impact. We have commitments and targets in place to reduce our consumption of resources, minimise our emissions and increase our share of renewable energy sources, such as biomass.

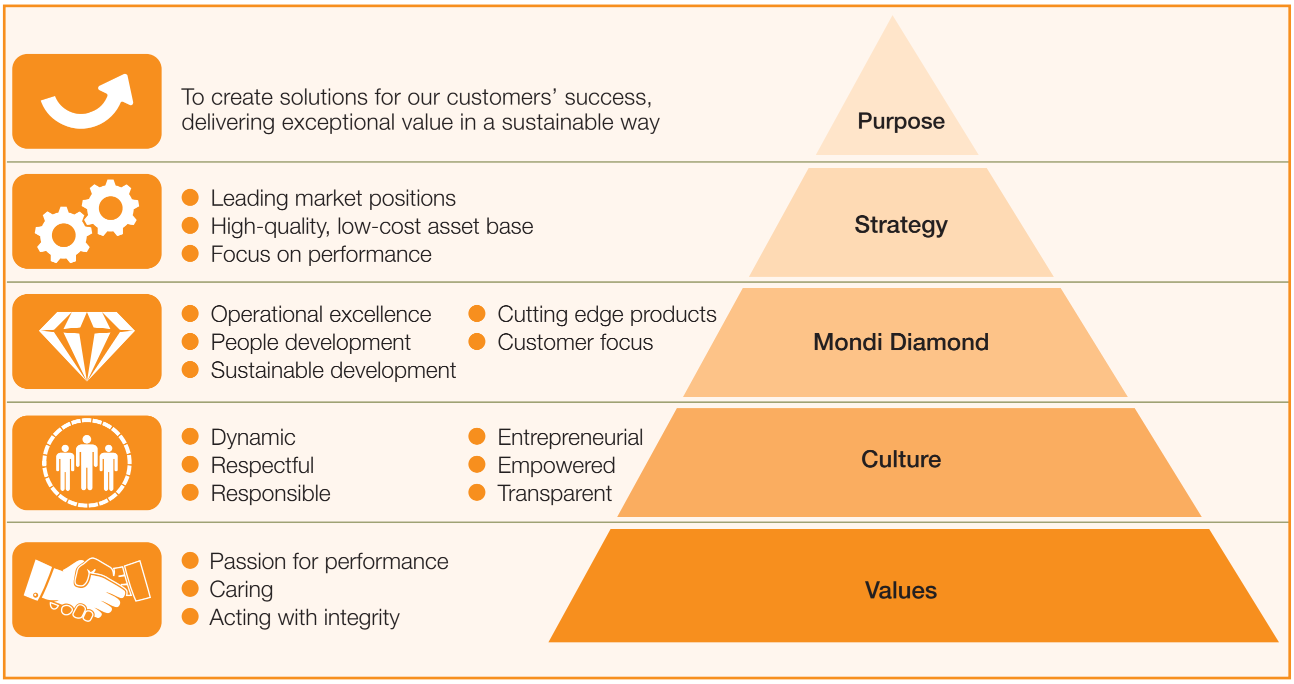
Sustained delivery on Group strategy

Mondi's strategic positioning continues to demonstrate the required combination of focus and flexibility to deliver results across the business cycle as we:

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

The Group's ability to continually assess market conditions and then react decisively, often ahead of competitors, allows Mondi to manage risks responsibly and take opportunities to strengthen our position when they arise.

We use the Mondi Way to visualise how our purpose, strategy and Mondi Diamond operational framework fit together, all built on a foundation of our culture and values. This simple yet effective approach is in essence an integrated strategic roadmap that guides the way in which we all work and allows our people to understand how meeting their objectives contributes to delivering on our strategy in a sustainable way. In 2011 we also made progress on shaping our culture, with the objective of creating an environment where our people respect our culture, live our values and feel motivated to contribute to their full potential.



1. **Leading market positions**

   Mondi continues to focus on achieving the right product and geographic mix in order to promote sustained profitability. The Group benefits from our exposure to faster growing emerging markets such as eastern Europe, Russia and South Africa, with 71% of the Group's net operating assets and 50% of revenue by destination based in these geographical areas.

   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 continues to enjoy a uniquely strong market position in the Bags & Coatings business in both eastern and western Europe, where the coatings and consumer packaging segment enjoys very attractive growth rates and returns. We will therefore continue to support our market position in Bags & Coatings with our existing western European assets.

2. **High-quality, low-cost asset base**

   Both Mondi's recent major capital investments, the modernisation of the Syktyvkar mill in Russia and the new lightweight recycled containerboard paper machine at Świecie in Poland, are running well and contributed significantly to the Group's profitability in 2011. Over the past 10 years, Mondi has invested more than €4.5 billion in its high-quality, low-cost asset base and our state-of-the-art operations are delivering superior returns across the cycle.

   Mondi's UFP business is reaping the rewards of its integrated low-cost positioning, while the recently restructured Corrugated business delivered strong results. The Bags & Coatings business enjoys good, and in many cases leading, market shares in its key markets and benefited from the very strong market recovery in the first half of 2011.

   The Group has approved certain energy related investments across a number of its operations, including a bark boiler in Syktyvkar, a steam turbine and recovery boiler economiser in Stambolijski, a steam turbine in Richards Bay, and a new recovery boiler in Frantschach.

   The focus of these and other projects still under consideration is to improve energy efficiency and self-sufficiency whilst providing opportunities to capture additional benefits in the form of electricity sales. In addition, a de-bottlenecking project has been approved to invest in a 100,000 tonne per annum pulp dryer in Syktyvkar to further exploit the benefits of the recently completed mill modernisation programme.

   The approved projects, totalling approximately €170 million in capital expenditure, are expected to generate significant benefits with returns in excess of 40%, from 2013 onwards.

Chief executive's review
continued

Mondi Diamond Awards exhibition

A number of other similar projects are under consideration at several of the Group's operations. If approved, these projects are expected to be completed over the next three to four years and the total estimated capital expenditure of about €250 million is expected to deliver returns well in excess of the Group's ROCE target.

3. Focus on performance

Our relentless focus on cost containment ensured that the Group's fixed cost increases remained within inflation in the countries in which we operate. Ongoing initiatives are directed towards ensuring efficient procurement of our most critical raw materials and operational efficiency. The energy related projects mentioned above will also provide benefits through a reduction of procured energy. Our working capital levels are well contained within the Group's target of 10-12% of turnover, following active inventory management during periods of decreased demand in the second half of the year.

Overall, from an operational perspective, 2011 was an extremely successful year. We continued to improve production efficiencies across the business and we again set full year production records in a number of key operations including Ružomberok, Świecie, Syktyvkar and Richards Bay – where for the first time we achieved annual saleable production in excess of 750,000 tonnes. We also achieved new speed records at Frantschach, Štěti and Ružomberok.

Mondi's strategic positioning, as outlined above, and the actions we have taken provide a stronger base, both financially and operationally, than we have ever previously enjoyed. During the down-cycle of recent years, we successfully completed our key Russian and Polish investment projects and we permanently shut a significant proportion of our high-cost operations, thereby further improving our cost position, while at the same time continuing to deleverage the business. As a consequence our balance sheet is now notably stronger and, I believe, Mondi's intrinsic value has increased. Furthermore, the capacity closures made both by Mondi and the industry in general during the crisis have improved demand/supply fundamentals in most of our core grades.

Mondi is now widely considered one of the lowest-cost producers in our industry, enabling us to generate superior returns relative to competitors. Our strong position is further supported by our well-invested, high-performing asset base and our exposure to product grades that are more resilient across the business cycle. As a Group, we have a proven history of delivering returns in excess of our weighted average cost of capital (WACC). We set an internal hurdle rate of 13% ROCE across the cycle (which is two to three percent above our pre-tax WACC) and, pleasingly, with a ROCE of 15% in 2011, we are delivering well in excess of this target.

Acknowledgement of our people

Our people are at the heart of our success and I believe that we have an extremely talented workforce, made up of people who are committed to achieving our strategic objectives in a sustainable way.

Mondi's performance in 2011 is a testament to the passion and dedication of our 23,400 people across the Group. During the course of this year, I have visited many of our operations and personally found it very motivating to experience the way in which we have all worked together to respond to changing market conditions, meet our customers' expectations and drive performance in all areas of our business.

The commitment our leaders and employees show to delivering results in a sustainable way makes me extremely proud and I would again like to express my thanks to all our people for the part they play in making Mondi a successful organisation. In particular I would like to thank Ladimir Pellizzaro and Peter Machacek, who both retired in 2011, for their invaluable contribution to the Mondi Group over 17 and 30 years respectively. We are very pleased that we have been able to fill Peter's position internally, confirming the depth of talent we have at Mondi, and we welcome John Lindahl as our new technical director.

I am confident that the time we are investing in refining our culture and making Mondi a more inspiring place to work will result in a productive environment where we can further improve our performance in 2012.

Mondi's future strategic direction and objectives

The stability and proven record of Mondi's strategy provides a clear sense of direction for the Group in 2012. Mondi has now been independently listed for nearly five years and over this time, we have clearly demonstrated our ability to act decisively and deliver results, even in uncertain conditions. We are certain that our strategic direction is sound and we are confident in our ability to adapt and execute it successfully across the business cycle.

Outlook

Looking ahead, while macroeconomic risks remain, it is encouraging to note that in recent weeks order books have improved and prices have stabilised, with price increases announced in certain grades. This should allow some recovery of price declines experienced over the course of the second half of 2011, although recent strengthening of emerging market currencies is impacting margins.

Supply side fundamentals in our core grades remain good following further announcements of capacity closures in the industry. Mondi's integrated low-cost operations, emerging markets exposure and unrelenting focus on sustainable performance ensure that the Group remains well-positioned to continue generating strong cash flow through the cycle, and adding value for shareholders over the longer term.

David Hathorn
Chief executive officer

Risk management and internal control

The DLC executive committee, mandated by the Boards, has established a Group-wide system of internal control to manage Group risks. The DLC audit committee has oversight of the Group-wide risk management system and of those risks which fall outside the remit of the DLC sustainable development committee, which oversees all sustainability risks and the management thereof. The Group-wide 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 in a sustainable manner. 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; and dynamic, to ensure that it remains current and responsive to changing business conditions.

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. Risk management is embedded in all decision-making processes, with holistic risk assessments conducted as part of all investment decisions. The requisite risk and control capability is assured through board and executive committee 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. Further detail on the specific sustainability risks and material issues identified by Mondi are included in the sustainable development review 2011.

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 and the Group's responses to those risks. These risks are assessed against pre-determined risk tolerance limits, established by the Boards. In addition, the DLC audit committee reviews each of the principal risks in detail over the course of the year. Additional risk reviews are undertaken on an ad-hoc basis for significant investment decisions and when changing business conditions dictate.

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.

Principal risk	Context	Mitigation
Cost and availability of a sustainable supply of fibre	Fibre (wood, pulp, recovered paper) is Mondi's most important raw material, comprising approximately one-third of total input costs. Increases in the costs of any of these raw materials, or any difficulties in procuring a sustainable supply of wood, pulp or recovered paper 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 FSC™-certified virgin fibre in Russia and South Africa, serve to mitigate these risks. It is the Group's objective to acquire fibre (wood, pulp and biomass) from sustainable sources with internationally credible certification and to avoid any illegal or controversial supply.
Foreign currency exposure and exchange rate volatility	The location of a number of the Group's significant operations in a range of different countries 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 currency exposures are to the South African rand, Russian rouble, Czech koruna, Polish zloty, Swedish krona and Turkish lira.	The Group's policy is to hedge balance sheet exposures against short-term currency volatility. Furthermore, the Group's geographic diversification provides some level of protection.
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 with differing political, economic and legal systems. In some countries, such systems are less predictable than in countries with more developed institutional structures. The current macroeconomic uncertainties in the Eurozone have heightened the political and economic risks in this region. Significant changes in the political, economic or legal landscape of any country in which the Group is invested may have a material effect on the Group's operations in that country.	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. The Group continues to actively monitor its exposure to the Eurozone environment.
Employee attraction, retention and safety	The complexity of operations and geographic diversity of the Group demands high-quality, experienced employees in all operations.	Appropriate reward and retention strategies are in place to attract and retain talent at all levels of the organisation. Mondi has a policy of working towards zero harm. Incidents are fully investigated, remedial actions taken and early warning indicators used to direct preventative work. Mondi adopts internationally recognised safety and health management systems across all its operations.
Capital intensive operations	Mondi operates large facilities, often in remote locations. The ongoing safety and sustainable operation of such sites is critical to the success of the Group.	Mondi's management system ensures ongoing monitoring of all operations to ensure they meet the requisite standards and performance requirements. A structured maintenance programme is in place under the auspices of the Group technical director. Emergency preparedness and response procedures are in place and subject to periodic drills. Mondi has adequate insurance in place to cover material property damage, business interruption and liability risks.

Risk management and internal control

continued

Internal control

The Boards are responsible for establishing and maintaining an effective system of internal control. 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.

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 control. 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 co-ordinated 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 and 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 82 to 85.

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 2011, 47 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 notes 22, 37 and 38 to the financial statements. In addition, notes 37 and 38 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. Ongoing initiatives by management in implementing profit improvement initiatives which include plant optimisation, cost-cutting, and restructuring and rationalisation activities 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 as more fully described on page 128. 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 €889 million of undrawn committed debt facilities as at 31 December 2011 which should provide sufficient liquidity for the Group in the medium term.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, including an assessment of the current macroeconomic environment, particularly in Europe, indicate that the Group should be able to operate well within the level of its current facilities and related covenants.

The directors have reviewed the overall Group strategy, the budget for 2012 and subsequent years, considered the assumptions contained in the budget and reviewed the critical risks which may impact the Group's performance. After making such 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 integrated report and financial statements.


Štěti, Czech Republic

Chief financial officer's review

Overview of results

The Group's underlying operating profit of €622 million was up 36% compared to 2010. The Group benefited from a generally positive trading environment, although a noticeable slowdown in demand in the second half led to some volume and pricing pressures when compared to the strong first half of the year.

The Europe & International Division, through its Uncoated Fine Paper, Corrugated and Bags & Coatings businesses, contributed €611 million and the South Africa Division €62 million. The Newsprint operating loss of €18 million was disappointing, whilst corporate costs were at similar levels to previous years.

Input costs, particularly wood, pulp and recycled fibre, increased by approximately 7% compared to the prior year. This was mainly attributed to market price increases, offset in part by currency gains and lower volumes, although some softening in key fibre input costs was seen in the second half of the year.

Net finance charges of €111 million were €5 million higher than those of the prior year, reflecting the lower average net debt, more than offset by lower net foreign exchange gains and reduced capitalisation of finance charges following the completion of the Syktyvkar modernisation project.

The tax charge for the year was €102 million (2010: €88 million), representing an effective tax rate before special items of 20% compared to 25% in 2010.

The demerger of Mpact (formerly Mondi Packaging South Africa) and related consolidation of Mondi Limited shares was concluded during August 2011. Comparative figures in the income statement have been restated to reflect Mpact as a discontinued operation. The details of the transaction are more fully described in note 9 of the financial statements. Consequently, to reflect the continuing business of Mondi, the Group has elected to present an alternative measure of earnings per share as if the recapitalisation and demerger of Mpact and Mondi Limited share consolidation had taken place at the beginning of each period presented. Basic earnings per share – alternative measure was 71.8 euro cents, an increase of 57% on the prior year.

Basic earnings per share from continuing operations of 57.5 euro cents was 52% higher than in 2010. Basic earnings per share from continuing and discontinued operations of 66.1 euro cents increased by 50% on 2010 levels.

In line with the increased turnover, working capital increased during the year with a net cash outflow of €68 million. The decrease in demand and selling prices, coupled with a focus on active inventory management in certain grades in light of the lower demand towards the end of 2011, resulted in some reduction of year end working capital levels compared to average levels during the year. The net working capital to turnover ratio was 10% at year end, the bottom of our targeted range of 10-12%.

Capital expenditure of €263 million was €131 million lower than the prior year, reflecting the reduction in spend following completion of the major capital investment in Russia. Excluding major expansionary capital investments, the capital expenditure to depreciation ratio was 63%, unchanged from 2010.

Strong cash generation and the proceeds from the demerger of Mpact led to a reduction in net debt to €831 million at year end, from €1,364 million at 31 December 2010.

The Group is proposing to pay a final dividend of 17.75 euro cents per share giving a total dividend of 26.0 euro cents for the year, an increase of 30% compared to 2010.

Reconciliation of underlying profit to reported profit

€ million	2011	2010
Underlying profit	410	266
Special items	(55)	(21)
Tax effect of special items	2	6
Discontinued operation	43	34
Profit for the year	400	285

Special items

Special items for the year include the following:

- impairment of Aylesford Newsprint joint venture assets;
- restructuring activities and impairment of certain assets in the Bags & Coatings business;
- loss on disposal of the Unterland flexible packaging business; and
- various other smaller adjustments relating to the finalisation of transactions from prior years.

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

Input costs

Wood, recovered fibre and pulp comprise approximately one third of the input costs of the Group. Wood prices increased by approximately 10% over the year. Average benchmark prices for recovered fibre increased by 28% when compared to the average price for 2010, although the benchmark price at the end of 2011 was 12% lower than that at 31 December 2010. Average prices for hardwood pulp and softwood pulp were largely unchanged through the year, although this masks significant price fluctuations experienced during the year. At year end, prices were respectively 24% and 11% below the levels seen at 31 December 2010. As the Group is largely balanced in respect of pulp production and consumption, pulp prices do not have a significant impact on the Group as a whole, but do impact the performance of individual business units.


Zeltweg, Austria

Chief financial officer's review
continued

Energy and chemical costs increased across the business, with particular pressure on electricity prices in South Africa, which continued to increase at well above inflationary levels. Various initiatives to reduce dependence on purchased energy and utilise energy more efficiently are being pursued both in South Africa and at the Group's European operations.

Currencies

The impact of exchange rates was relatively muted in 2011. The first half of the year was characterised by strengthening emerging market currencies which, coupled with relatively high levels of inflation in these jurisdictions, increased the underlying cost base of operations in those countries. This trend was largely reversed in the second half with higher levels of volatility and, on average, weakening of the emerging market currencies against the euro. Most currencies ended the year weaker against the euro than 31 December 2010 levels and weaker than the average rate applicable during the year, although there has been some strengthening of these currencies during the first weeks of 2012.

Tax

The Group's strategy is to achieve a sustainable and competitive tax rate reflecting the current tax composition of the Group, whilst acting in a transparent and professional manner.

The effective tax rate before special items was 20%, compared to 25% in 2010. The main reasons for the reduction in the tax rate include the 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.

Non-controlling interests

The income attributable to non-controlling interests increased during the year to €70 million, reflecting mainly the increased profit contribution from 66%-owned Mondi Świecie S.A. (Mondi Świecie).

Cash flow

EBITDA from continuing operations of €964 million was €166 million higher than in 2010. The Group generated €917 million of cash from operations (2010: €778 million), notwithstanding the €68 million increase in working capital on the back of increased revenues (2010: €129 million). The cash generated has been applied to invest in the Group's asset base and provide increased dividends to shareholders with the balance being utilised to reduce net debt.

Capital investment programme

Excluding major expansionary investments, the Group targets to maintain its capital expenditure at between 60% and 80% of its depreciation charge.

Including the approved strategic projects described in the chief executive's review, it is anticipated that total capital expenditure over the next three years will approximate the Group's depreciation charge.

Subsequent events

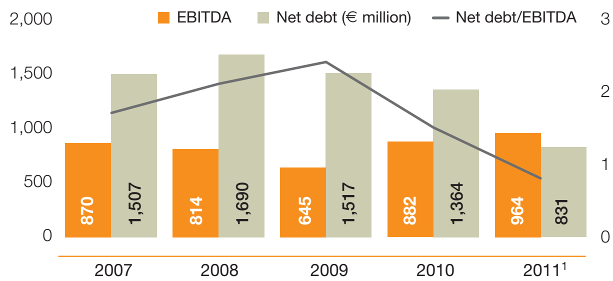
In February 2011, Mondi Świecie announced its intention to exercise an option to acquire the power and heat generating plant which supplies Mondi Świecie with the majority of its electricity requirements and all its heat and steam needs. The option was subject to certain conditions precedent, being a ruling from the Arbitration Court of the National Chamber of Commerce in Poland, consent of the financing banks of the power and heat generating plant and receipt of approval from the competition authorities. On 10 February 2012, the Arbitration Court ruled in favour of Mondi Świecie fulfilling the first of these conditions. Competition approval has been received and application has been made to the financing banks for approval. Based on the option price, the implied enterprise value of the business is around €90 million. The outcome and timing of any potential acquisition remains uncertain.

On 16 February 2012, Mondi made an all cash offer of PLN 69.00 (€16.48) per share for the 34% of Mondi Świecie shares that it does not already own. Mondi Świecie is listed on the Warsaw Stock Exchange. The maximum consideration, should all outstanding shares be acquired, is PLN 1.2 billion (€280 million).

Treasury and borrowings

Net debt at the end of the year was €831 million, a €533 million reduction from the prior year end. The demerger of Mpact accounted for €172 million of this reduction, whilst the balance was a result of the strong operating cash flows and the reduction in capital expenditure, together with a positive currency impact of €68 million. Gearing reduced to 21.5% at the end of 2011, down from 29.7% at the end of 2010, and the net debt to 12-month trailing EBITDA ratio improved from 1.55 to 0.83 over the year.

EBITDA and net debt
(€ million)



[1] 2011 EBITDA excludes Mpact.

The Group's public credit ratings, first issued in March 2010, improved as a result of the strong financial performance. Standard and Poor's upgraded the Group's long-term rating to investment grade from BB+ to BBB- in October whilst Moody's Investor Services put their Baa3 investment grade rating on positive outlook for upgrade.

The Group actively manages its liquidity risk by ensuring it maintains diversified sources of funding and debt maturities. During the year, the Euro Medium Term Note programme, under which the €500 million, seven-year bond was issued in March 2010, was renewed allowing continued access to debt capital markets. The Group's €1.5 billion bank facility that was due to mature in June 2012 was refinanced early with a new five-year, €750 million revolving credit facility. Further diversification of funding sources was achieved with the signing of a €100 million 10-year facility with the European Investment Bank (EIB) and a €40 million 11-year facility from the European Bank for Reconstruction and Development (EBRD).

At the end of the year, the Group's committed debt facilities amounted to €1.8 billion with €889 million undrawn, which together with cash of €191 million provides significant liquidity to meet short-term funding requirements. Drawn committed facilities maturing in 2012 amount to €251 million. To the extent they are not renewed, they can be financed out of existing cash and undrawn committed facilities.

Following the refinancing of the Group's principal bank facility and the new long-term facilities from the EIB and EBRD, the weighted average maturity of the Eurobond and committed debt facilities increased to 4.3 years as at 31 December 2011 compared to 2.6 years a year earlier.

Financial position

		2011	2010
Capital employed	€ million	**3,866**	4,588
ROCE	%	**15.0**	12.3
Shareholders' funds	€ million	**2,586**	2,763
Return on shareholders' funds	%	**13.1**	8.7
Net debt	€ million	**831**	1,364
Gearing (Net debt/Capital employed)	%	**21.5**	29.7
Net debt/EBITDA	times	**0.8**	1.5
Working capital	€ million	**575**	660

A strong improvement in all metrics reflects the robust financial position of the Group. The improvement in credit metrics is testament to the strong cash generation of the Group as well as the impact of the demerger of Mpact.

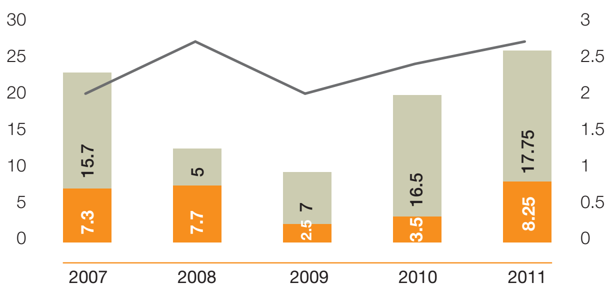
During the year, steps were taken to further reduce the Group's exposure to defined benefit obligations in South Africa. Agreement was reached with pensioners to transfer the liability to a reputable insurer, whilst active employees' funds were transferred to a defined contribution scheme. The transaction was subject to regulatory approval which was received in January 2012.

Shareholder returns

The ROCE of 15%, based on underlying earnings and average capital employed, reflects an ongoing improvement in performance and significantly exceeds the target of 13% across the cycle.

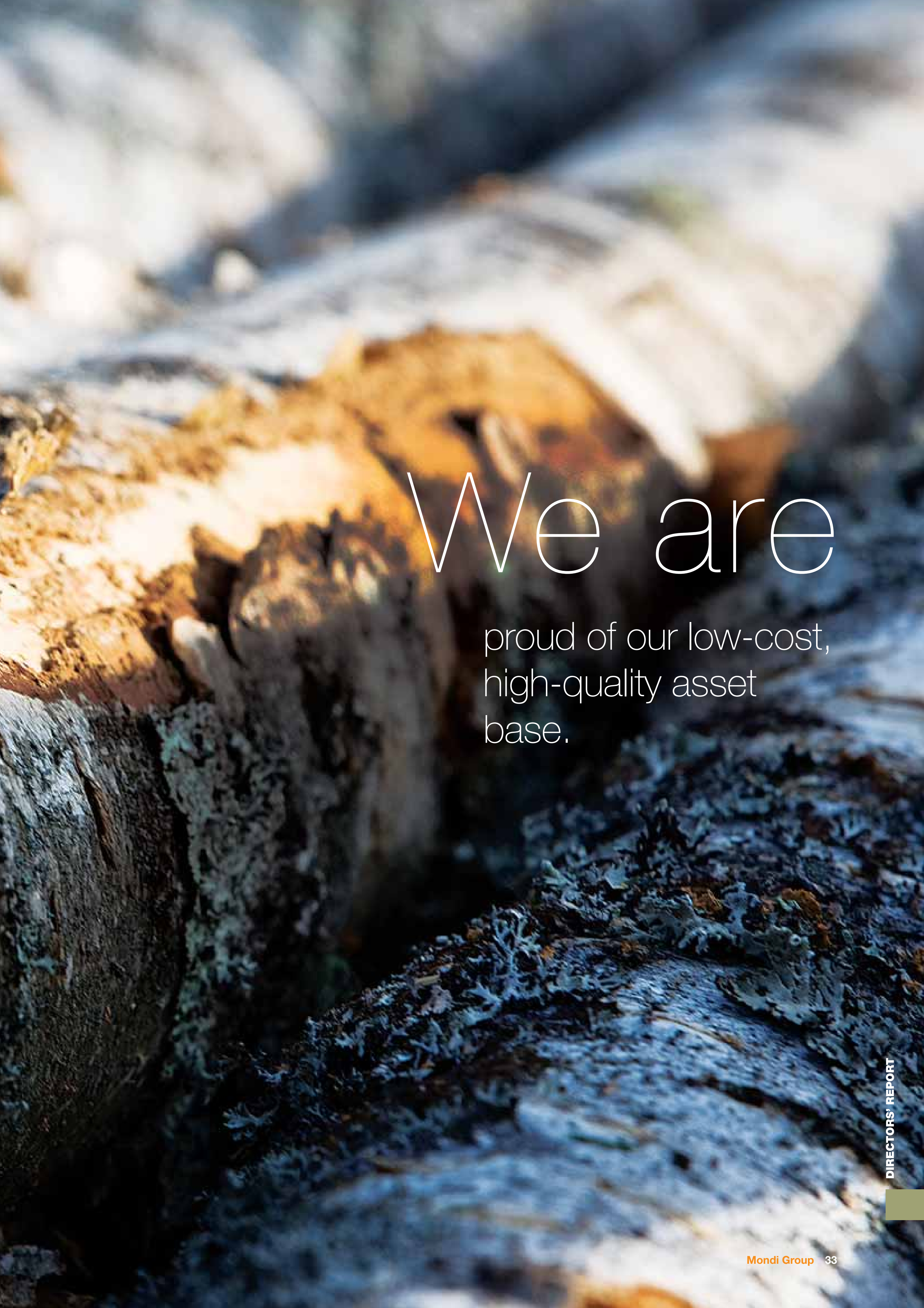
The Group's aim is to offer shareholders long-term dividend growth within a targeted dividend cover range of two to three times over the business cycle. The strong financial performance and cash generation have enabled the directors to recommend a 30% increase in the dividend to 26.0 euro cents per share, while remaining within the Group's targeted cover range.

Dividends paid and proposed
(€ cents per share)



Andrew King
Chief financial officer

DIRECTORS' REPORT



We are

proud of our low-cost, high-quality asset base.

Sustainable development review

At Mondi, we recognise the need to integrate sound principles governing sustainable development into our decision-making, business practices and reporting. In addition to this integrated report we have published a succinct sustainable development review that focuses on our material issues, and a comprehensive sustainable development report, both available online at www.mondigroup.com/sustainability. In this section, we provide a summary of the former to give the reader a concise overview of how Mondi is addressing its material sustainability issues. For more details on the scope and boundary of our sustainable development reporting, please refer to the sustainable development report.

Three principles define our approach to sustainable development reporting:

- we recognise that our reporting is of interest to and must take cognisance of a broad range of stakeholders;
- we focus on reporting on those issues that are most important to the business, identified through a risk-based approach that includes safety and health, the environment, and people; and
- we believe that it is important for us and our stakeholders to understand our strategy and performance in the context of both our industry and our performance.

The six material sustainability issues that have been identified and are reported on below are:

- securing access to sustainable fibre;
- maintaining our licence to trade;
- understanding and minimising our contribution to climate change;
- recognising concerns regarding biodiversity;
- safeguarding the wellbeing of employees and contractors, and securing key talent and skills; and
- increasing the eco-efficiency of our products.

In addition to the six material sustainability issues outlined above, the ongoing macroeconomic uncertainty, coupled with the competitive environment in which we operate, do pose inherent risks to the business and we address these risks in detail in this report.

Securing access to sustainable fibre

Securing access to sustainable fibre in the short, medium and long term is the most significant sustainability risk facing the Group. This issue is mitigated through the sustainable management of our resources and assets.

Seeking certification

At Mondi, meeting the requirements of sustainable forestry practices is a business imperative: from the responsible management of our forests through to the procurement of our wood and fibre through the supply chain.

Mondi is committed to FSC™ certification of all our owned, leased and managed forests in Russia and South Africa; to not procuring any wood from illegal or controversial sources; and to certifying all mills to CoC standards from FSC™, PEFC or a credible alternative.

Mondi's Stambolijski mill in Bulgaria is the only mill without a CoC certificate. However, controls were implemented to ensure that wood at Stambolijski was procured from non-controversial sources. We are planning to certify Stambolijski by 2013.

In 2011, a total of 61% of wood supplied to our processing plants was FSC™ or PEFC certified. Our commitment of 60% was already reached in 2010. The uncertified balance met the FSC™ Controlled Wood Standard (FSC™-STD-40-005 V.2) or PEFC Mandatory Guide for the Avoidance of Controversial Timber.

Responsible forestry

For Mondi, responsible, sustainable forestry means consistently considering the productive capability, biological integrity and community needs of the forests that we own and manage. Our approach is guided by extensive stakeholder engagement, policy development, and effective management.

Mondi owns or leases 307,000 hectares of land in South Africa, and leases and manages 2.1 million hectares of mainly softwood boreal forests in Russia. In 2011, 4.6 million m^3 of wood was harvested from Mondi's owned or managed forests. Our annual sustained yield or allowable cut is estimated to be about 8 million m^3 or 47% self-sufficiency[1].

The total amount of wood used by Mondi in 2011 was 16.8 million m^3, of which 10.3 million m^3 (61%) was certified to FSC™/PEFC standards (2010: 15.7 million m^3, of which 9.5 million m^3 (60%) was certified to FSC™/PEFC standards).

Forest plantations currently occupy 5% of global forest cover but supply 40% of global commercial wood and fibre requirements. Though these forests provide important economic and ecological value, they can also incur significant environmental and social costs if poorly managed. Sustainable plantation forests are those that are managed for sustainable and/or increasing yields, supported by intensive breeding programmes, based on a wide genetic base, carefully situated in the landscape to maintain functioning ecosystems and biodiversity, and offering protection to HCV areas. All of Mondi's plantation forests are managed sustainably, and have

[1] In terms of reporting on wood self-sufficiency, we have reported a slightly different figure in this review compared with page 14 of this integrated report, as this review covers all the activities of our global production operations in which we hold a minimum 50% shareholding or over which we have operational control, whereas in this integrated report joint ventures are proportionally consolidated.

been verified as such through FSC™ certification. In addition, none of the tree species in Mondi's forests are classified on the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species as vulnerable, endangered or critically endangered.

Global issues around boreal forests include illegal logging; felling of intact pristine forests and other HCV areas; and felling in a way that does not mimic the natural dynamics of the boreal system, a necessary condition for maintaining biodiversity. Mondi restricts or prohibits commercial forestry in HCV forests and is also involved in an ongoing, multi-stakeholder HCV process with the Russian NGO, Silver Taiga; WWF; the Russian state; Greenpeace and local communities to identify and protect HCV pristine forests.

Retaining land access in South Africa

In South Africa, some 125,061 hectares or 49% of Mondi's total land holdings are subject to 82 land claims. These land claims stem from a complex legacy of state-led forestation and forced state removals of indigenous peoples, subsequently redressed under post-apartheid South African law.

Mondi is committed to playing a positive role in meeting the specified land reform targets, while establishing sustainable solutions in partnership with the new landowners, and minimising land transfer to alternative uses to 15%. To date, 11 Mondi land claims have been settled, with 19,200 hectares transferred to community beneficiaries; an agreement regarding the settlement of 32 claims in KwaZulu-Natal has been reached; and 39 claims remain outstanding in Mpumalanga. Mondi's innovative model ensures that communities gain ownership of the land and derive a sustainable income from it, while at the same time Mondi secures a sustainable fibre supply. Mondi considers post-settlement support to be an essential element of developing successful community forestry businesses.

Maintaining our licence to trade

Mondi recognises that our compliance with regulatory requirements works hand-in-hand with our 'socio-environmental licence to trade', which requires the acceptance and co-operation of a broad range of stakeholders. This 'licence' needs to be earned through constructive multi-stakeholder engagement, consistent delivery on our commitments, and a net positive benefit by Mondi to society.

Our approach in this regard includes an active involvement with industry bodies, NGOs, scientific institutes, governments and others in understanding the global, national and local socio-economic and environmental imperatives, and our ability to leverage our role in these forums.

High conservation value forest, Russia

Sustainable development review
continued

Voluntary standards and third party certification
The adoption of voluntary standards plays an important role in the development of internal skills and resources, monitoring and validation, and in our drive for continuous improvement. Examples here include our adoption and implementation of ISO14001, OHSAS 18000 and FSC™, and our support for the United Nations Global Compact (UNGC). In 2011 Mondi was recognised as an advanced level reporter by the UNGC. Our sustainable development management system (SDMS) has been developed in line with the AA1000 APS standard, and incorporates materiality, stakeholder inclusiveness and responsiveness. External certification and assurance, complimented by rigorous internal assurance, supports this process.

Safeguarding our social licence
We strive to make a real and lasting contribution to the communities in which we operate, both through CEPs and direct and indirect economic contributions. We engage on a sustainable basis with local communities in close proximity to and directly affected by our operations, building mutually beneficial relationships that enhance capacity and improve quality of life.

In South Africa and Russia, in particular, our community development initiatives focus on education and training; local economic development; poverty alleviation; health care, environmental education and rehabilitation; and sports and recreation. In South Africa, special attention is also paid to the HIV/AIDS pandemic, living conditions, and livelihood opportunities for the rural poor, including forest sector workers and their families in forestry areas.

Effective community engagement
SEAT processes are used as a basis for the identification, monitoring and management of an operation's social and economic impacts, and to improve our social performance in response. They involve a wide range of internal and external stakeholders. All our socially material operations must undertake a SEAT process every three to five years. Smaller operations undertake simpler reviews of socio-economic impacts, opportunities and risks using the principles outlined in the SEAT process and through their CEPs.

The SEAT process is currently under review to ensure that it remains relevant to Mondi operations and assists in the development of sustainable community projects.

CEPs are in place at all our material operations and assist us in maintaining constructive dialogue, so that communities may raise any concerns which can, in turn, be addressed. Mutually acceptable monitoring mechanisms, developed in collaboration with local communities, monitor the effectiveness of our community engagement. Ultimately, our aim is to ensure that CEPs deliver a net social and economic advantage as a result of our activities.

Corporate social investment
CSI involves contributions whose benefits exceed those directly associated with our business activities. CSI initiatives are identified and developed during the CEP planning process, through consultation with local communities. In this way, we ensure that we invest in those programmes that are most relevant to the needs of our employees and the communities in which they live and work.

During 2011, Mondi contributed some €17.3 million towards charitable donations and CSI projects (2010: €12.6 million).

Addressing human rights
Mondi's Code of Business Conduct, is based on a number of voluntary codes. While not legally binding, these codes of conduct, principles, and guidelines are raising expectations within the public about socially responsible business. In particular, the Group subscribes to the Universal Declaration on Human Rights and is committed to the:

- UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights;
- UNGC (advanced level reporter);
- Fundamental Rights Conventions of the International Labour Organization;
- OECD Guidelines for Multinational Enterprises; and
- Voluntary Principles of Security and Human Rights.

The principles enshrined in the above are embodied in our policies, systems and practices, and ensure the provision of a fair, safe and healthy workplace for our employees and contractors, free from discrimination, harassment or abuse. We encourage our suppliers, customers and business partners to work in accordance with these principles.

Developing smarter, more responsible products
Mondi's approach to product stewardship involves actively managing the social, environmental, and safety and health impacts of all our products throughout their life cycles. Responsibility for individual products and customer relationships is decentralised across the Group to ensure that the needs of our markets are identified and met. A specialist Group-level team, the product stewardship network, guides our product responsibility practices under the principles advocated by the Life-cycle Initiative set out in the United Nations Environmental Programme (UNEP).

For more information, read about Mondi's Green Range, our environmentally-friendly paper and packaging products, at www.mondigroup.com/gogreen.

Reducing the environmental footprint of our products

Significant work has been undertaken to address the environmental impacts of our products: in particular, to improve energy and water efficiency at our pulp and paper plants, and to accelerate our reductions in CO_2e emissions. Based on natural fibres using renewable resources, all of Mondi's paper-based products are recyclable, and approximately one third of our fibre-based products are made from recycled fibre. In 2011 we consumed 1.5 million tonnes of recovered fibre (30% of our total pulp consumed).

Focus on water – conserving a scarce resource

Water is a scarce resource on a global scale and Mondi, as a significant user of water throughout the life cycle of our products, is committed to its responsible use, and to the appropriate handling of any risks to operations and communities related to water scarcity.

Mondi carried out detailed water impact assessments (WIAs) at its forestry operations in 2011 to assess any medium or long-term threats to the business, particularly in water-stressed South Africa. The WIAs established that there is no significant threat due to the location of Mondi's South African plantations on the wetter, eastern side of the country. The conclusions of the WIAs have been discussed with third parties to ensure they are comprehensive, and have been appropriately benchmarked to assess materiality.

Water footprint

During 2011, Mondi calculated its water footprint at a Group and operational level using the methodology described in the Water Footprint Assessment Manual published by the Water Footprint Network. A product's water footprint is defined as the amount of fresh water needed to produce it, and is split into green, blue and grey water.

In 2011, Mondi's total water input was 309 million m^3 (2010: 311 million m^3).

Preserving wetlands

The stewardship of wetlands is important to Mondi. Wetlands and the ecosystem services they provide play a vital role in water regulation and purification, biodiversity protection, tourism, grazing, subsistence agriculture, and are a source of food and plant materials for rural communities. The impact of land use on water sources, including wetlands, is an important component of our resource management practices, and these issues inform our responsible water use practices.

Our sponsorship of the Mondi Wetland Programme and the Mondi Ecological Network Programme (MENP) facilitates the development of solutions for wetland conservation and the enhancement of biodiversity through ecological networks. We also actively engage with and support NGOs and academic institutions to improve our understanding of plantation water issues.

In our forests, buffer zones for the protection of riparian and wetland areas are strictly adhered to and form an important component of our HCV areas set aside for protection of water resources and biodiversity.

Understanding and minimising our contribution to climate change

The ability of forests to absorb and store CO_2 is indicative of the role they play in counteracting or moderating climate change. Sustainably managed forests maintain tree growth and optimum levels of CO_2 uptake, helping to reduce the level of CO_2 in the atmosphere. In 2011, Mondi sustainably managed around 2.1 million hectares of carbon-neutral boreal forests and 307,000 hectares of plantation forests, with an avoidance of about 4.1 million tonnes of CO_2e (2010: 4.1 million tonnes of CO_2e).

Around 61% of our wood supply comes from FSC™ or PEFC-certified sources and we have the potential to supply 47% of our wood requirements[1]. Although Mondi fells trees, we are not party to deforestation. For every tree that is felled in our plantation forests, at least one other is planted. Some 32 million new trees were planted by the Group in 2011, including 2 million in our boreal operations. In our natural boreal forests, felled areas are left to regenerate naturally and supplemented where required with plantings. Mondi is not involved in illegal logging.

Mondi is cognisant of the risk of climate change to our forestry operations, and to our forest-dependent communities, and has various strategies in place to mitigate potential risks, including water availability, floods, harvesting and the invasion of new species.

Compliance

The majority of Mondi's European operations fall under the European Union's Emissions Trading Scheme, which has published benchmarking targets limiting the CO_2 allowances of European paper and pulp producers. In South Africa, Mondi acts in compliance with the South African National Environmental Management: Air Quality Act, which has requirements for the reporting of industrial greenhouse gas (GHG) emissions and mitigation plans.

Carbon performance

We report on our GHG emissions in accordance with the WRI/WBCSD GHG Protocol. In 2011, our direct (scope 1) Group-wide GHG emissions amounted to 4.45 million tonnes CO_2e (2010: 4.48 million tonnes CO_2e) from our material operations and 0.079 million tonnes from our converters, while

[1] Please refer to footnote 1 on page 34.

our indirect (scope 2) emissions from purchased energy were 1.11 million tonnes CO_2e (2010: 1.41 million tonnes CO_2e) from our material operations, and 0.12 million tonnes from our converters. Our indirect emissions (scope 3) from transporting our products and raw materials, employee commuting, business travel and raw materials (reported for the first time) amounted to 2 million tonnes (2010: 0.34 million tonnes)[1].

Customers are increasingly interested in carbon neutrality and demand climate-friendly products with a reduced carbon footprint. Since 2010, we have provided customers with detailed product carbon footprints, including a computer-based product carbon footprint calculator, based on the 10 principles of the Confederation of European Paper Industry (CEPI), for all our products.

Pursuing energy self-sufficiency

Energy security is a global concern and the current, largely fossil-fuel based energy situation is unsustainable. Forest biomass provides a potentially vast source of renewable energy.

Mondi is actively increasing the biomass content for energy generation as an alternative to fossil fuels at our mills. This has enabled a number of our operations to be completely energy self-sufficient and net green energy providers. The proportion of our renewable energy to overall energy usage increased from 47% in 2004 to 57% in 2011. In 2011, we saved CO_2e emissions of around 249,000 tonnes through the sale of green electricity, heat and fuels; the use of recovered fibre; and the substitution of natural gas with biogas.

The use of renewable raw materials has resulted in a 15.6% reduction in specific energy consumption and an absolute CO_2e reduction of around 1.4 million tonnes.

Recognising concerns regarding biodiversity

Mondi recognises that biodiversity is a significant concern on which industry, including forestry, can have a negative impact. We believe that our business practices, our engagement with global bodies, and our investment in research and development, enable us to make a positive contribution to maintaining biodiversity in the natural forests and developed landscapes in which we operate.

Mondi's thinking is aligned with the findings of The Economics of Ecosystems and Biodiversity (TEEB) study, an international initiative to promote the economic benefits of ecosystem services and biodiversity; to highlight the growing costs of biodiversity loss and ecosystem degradation; and to draw together expertise from the fields of science, economics and policy to enable practical responses. As a core member of the WBCSD Ecosystems Focus Area, we have identified our dependence and impact on ecosystems and are piloting aspects of the economics of ecosystems in catchment areas in South Africa.

Ecosystems, biodiversity and forestry

Our forestry practices have an impact on ecosystems and their regulatory (climate and water regulation, flood control, waste disposal) and provisioning services (fresh water, fibre, food). Through our ecosystem management plans, Mondi works to identify and preserve HCV ecosystems such as indigenous forests, wetlands and grasslands and, in some cases, restore degraded and vulnerable ecosystems such as indigenous forests, wetlands and grasslands.

Mondi has been involved in some of the early, pioneering work on ecosystems, evidenced in our participation in the South African government's 20-year Grassland Programme and the Ezemvelo KZN Wildlife Biodiversity Stewardship Programme, and we actively encourage other landowners and interested parties to do the same. As a result of these efforts, two of Mondi's areas in South Africa have been registered as private nature reserves, and the largest part of Mondi SiyaQhubeka is incorporated in the iSimangaliso World Heritage Park.

We do not convert natural forests, wetlands or protected areas into plantations. In addition, the conversion of grasslands or degraded agricultural lands is subject to an environmental impact assessment (EIA) and a national multi-stakeholder licence application procedure in order to ensure adequate protection of water resources and biodiversity, including HCV grasslands. We set aside land under our management for conservation purposes, with at least 25% (77,000 hectares) of our land in South Africa and 23.5% (495,000 hectares) of our land in Russia being set aside for conservation in 2011.

Preserving high conservation value areas

We recognise our responsibility to conserve our HCV natural resources and, where possible, to help restore ecosystems that have been damaged by our or other historical activities. We are engaged in partnerships to identify, classify and preserve forests and other ecosystems designated as HCV areas owing to their ecological or social significance in both South Africa and Russia.

Mondi supports the HCV Resource Network, a global network which promotes a practical, consistent approach to HCV methodology. The adoption of the HCV concept by a number of agricultural bodies serves to promote the use of HCV beyond the forestry sector, and has important implications for global conservation.

[1] In 2010, emissions from raw materials and their transport were not calculated. For more information about the scope and boundary of our carbon footprint and the breakdown of our scope 1, 2 and 3 emissions, see the online sustainable development report. We have reported our scope 1 and 2 GHG data in compliance with ISO14064-1: 2006.

Mondi SiyaQhubeka Forests is our flagship for HCV conservation at our South African operations, while in Russia's Komi Republic we actively support and participate in a multi-stakeholder process in the identification and protection of some of the last remaining HCV-intact forests in Europe. Five of these HCV-intact forests have been identified in the process, one was granted protection status in 2011 and we are supporting the process to gain protection for the others.

New generation plantations

New generation plantations (NGP) are intensively managed forest plantations that maintain ecosystem integrity, protect HCV areas, are developed through effective stakeholder participation processes, and contribute to economic growth and employment.

The WWF NGP Project, of which Mondi is a participating member, is aimed at developing and promoting sustainable forestry solutions for forestry plantations, and promoting management frameworks that create good environmental, social and economic results. Mondi's SiyaQhubeka Forests in KwaZulu-Natal is one of a number of global best practice case studies.

Safeguarding the wellbeing of employees and contractors, and securing key talent and skills

For Mondi to succeed as a global organisation, we need a skilled, trained and committed workforce, the members of which are able to undertake jobs safely and productively, and are empowered to fulfill their potential.

Safeguarding the wellbeing of employees and contractors

We recognise that our employees work in potentially dangerous environments where hazards are ever-present and must be managed. We believe that all incidents are preventable and that we must learn from experience. Our ultimate goal is to achieve zero harm in the workplace through an interdependent culture that views the responsibility for safety and health as one shared by all employees.

The safety commitments we set for 2011 were, regrettably, not met with two fatalities at our operations during the year – one in the US and one in South Africa. During the year, our TRCR (per 200,000 hours worked) was 0.92 (2010: 1.09)[1].

An integral part of our systematic approach to safety is the Nine Safety Rules to Live By, which are applied across the Group.

[1] Safety data includes all employees and contractors, with the exception of service suppliers such as catering, office cleaning or telecom work and management consultants. All safety incidents are included within the scope of our reporting except those incidents where Mondi has been unable to or inhibited from enforcing its safety standards on contractors. In 2011, two such incidents occurred, including a fatality.

Sustainable forestry, South Africa

Sustainable development review
continued

Safety communication sessions and safety committee meetings, involving management, employees and contractors, are conducted at all operations. Language barriers in South Africa are overcome using trained facilitators. Thorough investigations follow every safety incident, the findings of which, as well as applicable action plans, are shared across the Group.

Efforts to manage, mitigate and address the Group's two major process safety risks – the operation of black liquor recovery boilers and the possibility of fires and explosions – have been made, and addressing the process safety risks will remain a focus area in the forthcoming years as well.

Our occupational health systems vary between operations and regions, as do specific health stressors. Preventing noise-induced hearing loss by reducing exposure to excessive noise and ensuring the correct use of personal protective equipment, remains a key focus area. Operations are encouraged to host health days for employees, in which various medical practitioners and health care providers participate, providing health care monitoring services.

Dealing with HIV/AIDS in South Africa

The HIV/AIDS pandemic continues to cause illness and deaths amongst employees and community members alike. Mondi's policy and practices incorporate the encouragement of voluntary counselling and testing (VCT), the prevention of discrimination, the management of HIV-associated illnesses and disabilities, measures to reduce the impact of HIV, antiretroviral treatment (ART) and disease monitoring.

Our HIV/AIDS management system is based on World Health Organization (WHO) guidelines and is aligned to the ILO Code of Practice on HIV/AIDS and the World of Work.

To ensure that employees, contractors and their families have access to medical care, we have supported three mobile clinics to provide VCT and primary health care to community members in our remote forestry areas. We also provide critical vaccinations to children from the surrounding communities.

VCT is freely available to all employees, and 1,100 employees made use of it in 2011. In 2011, 40 employees participated in the ART programme (2010: 91).

Securing talent and skills

Mondi seeks to develop and empower our people to perform at their best and to grow within a dynamic culture. While the management of people is a line function, specialist human resources personnel at a Group, divisional and operational level provide knowledge, guidance and support to line management as required. As at the end of 2011, Mondi provided employment for approximately 23,400 people (2010: 29,000 employees).

Mondi provides information and engages with employees through a variety of channels including intranets, videos, team briefs, team meetings, senior management presentations and addresses, employee surveys and individual meetings. Employee engagement is aimed at providing information on a regular basis and facilitating feedback so that the views of employees can be taken into account in the decision making process.

Mondi also provides employment for a significant number of contractors, both at its mills and forestry operations. In 2011, an average of 18,000 contractors were employed.

Embracing diversity

Mondi is committed to the fair treatment of all employees, irrespective of origin, race or gender. To this end, we comply with the employment requirements of the countries in which we operate. We recognise that in South Africa, where employment equity is entrenched within legislation, there are historical imbalances that need to be redressed in the workplace. For this purpose, we have structures in place to monitor progress and assist us in adhering to the law. We provide equal opportunities to men and women and ensure that our policies and practices reflect this.

At the end of December 2011, 20% (2010: 20%) of employees were women and 10% (2010: 20%) of our managers[1] were women.

Employment practices

We uphold the labour rights set out in the Fundamental Conventions of the ILO, ensuring fair employment practices at our operations. Our remuneration practices are competitive and do not discriminate on any grounds. All employees have the right to freedom of association and collective bargaining. In South Africa and in many European countries, collective bargaining is enshrined within legislation.

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 Mondi's policy that the career development of disabled persons should, as far as possible, be consistent with that of other employees.

We aim to reduce the extent to which employees are exposed to high-risk and heavy manual tasks and to eliminate harmful ergonomic practices, particularly through the mechanisation of our forestry operations.

Food security, or the lack thereof, remains a critical issue in rural South African communities and affects Mondi's forestry contractors, who are mainly women. This issue impacts quality of life, long-term health, and employee safety, and is exacerbated by HIV/AIDS. Mondi's Food 4 Forests programme – first launched in 2008 – ensures that employees and contractors working in forestry operations receive and consume a nutritionally balanced meal during the course of the day. Some 1.8 million meals were delivered to around 8,000 people in 2011.

[1] In 2011, the definition was applied more strictly across all operations.

Training and development

Leadership development programmes, at Group and operational level, play an important role in the identification and development of talent within the Group.

The Mondi Academy offers training in leadership, personal, business and technical excellence.

In 2011, 572 employees from our E&I Division participated in training hosted in Austria, Poland and Russia.

The Mondi Academy in South Africa was officially launched in February 2011 and 541 employees received training.

Increasing the eco-efficiency of our products

Mondi is committed to minimising certain impacts our operations may have on the surrounding environment by using our resources wisely and responsibly.

In particular, we have undertaken extensive investment to minimise the environmental impacts of our pulp and paper plants by improving energy and water efficiency, reducing our water and carbon footprint, and reducing waste as well as emissions to air and water.

As a minimum standard, we ensure that all our operations comply with the environmental laws and regulations of the countries in which we operate. No significant fines or non-monetary sanctions were imposed on Mondi as a result of non-compliance with environmental laws or regulations during 2011.

The pulp for paper making may be produced from virgin fibre by chemical or mechanical means, or it may be produced through the re-pulping of recovered paper. In 2011, we used approximately 1.5 million tonnes of recovered paper (2010: 1.8 million tonnes) to produce pulp for paper and newsprint – this amounts to 30% of the total amount of pulp used (2010: 33%).

Emissions to air

One of the biggest community concerns and one of our major industry-specific emissions is total reduced sulphur (TRS) compounds from our pulp mills. While the scale of the concentrations emitted does not pose a health threat, trace amounts can be enough to create an odour nuisance.

In 2011, our TRS emissions amounted to 122 tonnes (2010: 134 tonnes) with 209 complaints reported, mainly relating to odour. We have reduced our TRS emissions mainly by collecting sulphur-containing emissions followed by combustion in incineration facilities, such as recovery boilers.

SO_2 is emitted mainly as a result of the combustion of coal for energy generation. Our SO_2 emissions amounted to 4,244 tonnes for the year. While our SO_2 emissions remain high, mostly due to the increase in production, we continue to move from sulphur-containing coal towards renewable sources for energy generation. NOx emissions are related to the combustion of fossil fuels and biomass in our onsite energy generation plants. We have implemented programmes to increase the efficient use of our existing boilers and have introduced de-NOx systems in the purification of exhaust gases. In 2011, our NOx emissions amounted to 11,507 tonnes (2010: 11,219 tonnes) while our particulate emissions amounted to 1,536 tonnes in 2011 (2010: 2,902 tonnes). The planned modernisation of some of our boilers will result in a measurable reduction of SO_2 and NOx emissions.

Water

The recycling of water is an important concern for us in optimising our resource efficiency. Apart from being a critical resource, we also use hot water for the generation of energy, which has a significant economic impact on our operations.

The water we discharge after production is treated and tested to ensure it meets ecological and regulatory requirements, before being released back into the natural environment. In 2011, around 330 million m^3 of water was discharged by Mondi's operations. Total water input amounted to 309 million m^3.

Good progress was made in reducing chemical oxygen demand (COD) by 34% between 2005 and 2010[1]. In 2011, the COD load amounted to 47,047 tonnes (2010: 48,756 tonnes). The improvement of waste water treatment at Świecie and Syktyvkar resulted in a reduction of COD by 5,000 tonnes in 2011.

Waste

We carefully monitor all our process waste according to their types and routes and categorise them according to hazardous and non-hazardous waste as well as treatment type. Our main waste streams are green liquor, boiler ash, lime mud, waste paper rejects and sludge. Rather than disposing of waste in landfills, we recycle waste, re-use it or use it as a secondary fuel for energy generation.

We have reduced our total waste-to-landfill volumes by increasing the recycling and re-use of materials. This has also been done by making further use of renewable energy and maximising the use of raw materials, such as carbon-neutral biomass. In 2011, our total waste to landfill amounted to 300,455 tonnes.

Sustainable development report

For further information on Mondi's sustainable development policies, practices and reporting, visit www.mondigroup.com/sustainability. The Group's 2011 sustainable development report is available in HTML and an abbreviated sustainable development review is available as a PDF. Case studies are also available to provide real-life examples of Mondi's approach to sustainable development.

[1] The 2010 figure includes Mpact with 91,000 tonnes. This figure was restated to 48,756 tonnes in 2011 to provide a comparative basis going forward.

Business review

Europe & International Division: Uncoated Fine Paper business

			2011	2010
Financial statistics	Net segment assets	€ million	**1,283**	1,512
	Capital expenditure	€ million	**61**	151
	Segment revenue	€ million	**1,429**	1,516
	Underlying operating profit	€ million	**205**	179
	ROCE	%	**16.7**	16.9
Production	UFP	’000 tonnes	**1,401**	1,524
	Pulp	’000 tonnes	**1,163**	1,089
	Newsprint	’000 tonnes	**199**	198
	Number of production sites		**4**	4
Employees	Number of employees	Hundreds	**85**	95
	TRCR	Per 200,000 man hours	**0.26**	0.34
Eco-social footprint (including Syktyvkar containerboard plant)	Total water input	’000 m^3	**144,579**	
	Energy usage	TJ	**63,300**	
	CO_2e emissions	’000 tonnes	**2,480**	
	Waste to landfill	’000 tonnes	**63**	
	Forestry assets		**2.1 million hectares 5.5 million m^3 allowable cut per annum**	
	FSC™/PEFC CoC certified wood	%	**70**	
	Area of land set aside for conservation		**495,000 hectares (23.5% of landholding)**	
Market positions	No. 1 in office paper and UFP in Europe			

Underlying operating profit increased by €26 million to €205 million. The Syktyvkar mill delivered a very strong result, benefiting from the first full year contribution from the mill modernisation investment completed in the second half of 2010. Together with a solid performance from the Ružomberok and Neusiedler mills, this more than offset the lost contribution from the sale at the end of 2010 of Mondi’s controlling interest in Mondi Hadera.

The ROCE of 16.7%, marginally down on the previous year, reflects the positive trading environment, low cost base and strong operating performance as well as the contribution from the Syktyvkar modernisation.

Average benchmark UFP prices were approximately 7% higher than in 2010, although they closed the year at similar levels to December 2010, reflecting some selling price pressure towards the end of the year. Product mix improvements also contributed to improved profitability. Sales volumes, excluding the contribution of Mondi Hadera in 2010, were largely flat. Sales into emerging Europe increased during the year to approximately 43% of total sales volumes.

A number of new products were launched during the year to provide improved printing qualities, particularly for digital printing presses. Sales of Mondi's Green Range products continue to grow and currently reflect slightly more than 30% of total sales volumes. Mondi's Green Range of products consists entirely of FSC™ or PEFC-certified office and printing paper from responsibly managed forests, some of which is totally chlorine-free paper or 100% recycled paper.

Input costs increased versus the prior year. Wood costs were up on average in excess of 10%, although benchmark hardwood pulp costs were down around 4% per tonne on average. The Syktyvkar modernisation had the effect of reducing overall fibre input costs, as increased pulp self-sufficiency meant that higher wood usage was more than offset by the reduction in purchased pulp costs. Gas and electricity costs increased in both Syktyvkar and Ružomberok.

All of the 2.1 million hectares of our leased forestry assets in Russia are FSC™ certified, ensuring that the natural boreal forest, based on a legislated 110-year cycle, is sustainably managed and there is no loss of HCV in the areas where we operate. An area of 495,000 hectares (23.5% of the total leased area) has been set aside for conservation purposes.

Productivity, measured in terms of output per person, improved by approximately 12% during the year, with annual production records in both Syktyvkar and Ružomberok.

The Syktyvkar modernisation project generated a ROCE in excess of 10% through increased volumes, energy sales and lower consumption of purchased pulp, with further benefits expected in 2012 as full ramp up is achieved. The business continues to focus on further optimisation with particular emphasis on energy, procurement and operating efficiencies. In addition, initiatives to improve forestry operations will be implemented over the next two years, with an expected increase in underlying operating profit in excess of €15 million per year.

Capital expenditure for the year was €61 million, of which €24 million related to the Syktyvkar modernisation project.

The TRCR of 0.26 reflects continuing efforts to improve the safety performance at all of the Group's UFP mills. The business recorded four injury-free months in the year.

Ružomberok, Slovakia

Business review
continued

Europe & International Division: Corrugated business

			2011	2010
Financial statistics	Net segment assets	€ million	**967**	898
	Capital expenditure	€ million	**44**	87
	Segment revenue	€ million	**1,384**	1,235
	Underlying operating profit	€ million	**178**	119
	ROCE	%	**18.5**	14.9
Production	Containerboard	’000 tonnes	**2,010**	1,940
	Corrugated board and boxes	Million m^2	**1,213**	1,308
	Pulp from virgin fibre	’000 tonnes	**792**	714
	Recovered fibre	’000 tonnes	**1,291**	1,230
	Number of production sites		**19**	19
Employees	Number of employees	Hundreds	**55**	60
	TRCR	Per 200,000 man hours	**1.05**	1.66
Eco-social footprint	Total water input	’000 m^3	**35,091**	
	Energy usage	TJ	**24,778**	
	CO_2e emissions	’000 tonnes	**907**	
	Waste to landfill	’000 tonnes	**69**	
	FSC™/PEFC CoC certified wood	%	**60**	
Market positions	No. 2 in virgin containerboard in Europe No. 1 in recycled containerboard in emerging Europe No. 1 in corrugated packaging in emerging Europe			

The substantial improvement in the underlying profit of the Corrugated business in 2010 continued in 2011, reflecting the benefit of the improved trading conditions, recent capital investments and restructuring and cost-reduction initiatives undertaken over the last few years. Underlying operating profit increased by 50% to €178 million. The profitability of the business and well-invested capital base is reflected in the ROCE of 18.5%, improving from 14.9% in 2010.

The Syktyvkar containerboard machine rebuild, completed as part of the Syktyvkar modernisation programme, made a strong contribution, while the Świecie mill delivered a further significant improvement in performance.

Total containerboard sales volumes increased by 3% compared to 2010, with kraftliner and recycled containerboard volumes remaining largely unchanged whilst white top kraftliner volumes increased by 14%. Demand slowed in the second half of the year, necessitating some commercial downtime in the fourth quarter. The order book has improved during the first weeks of 2012 although demand for white top containerboard still remains subdued. Recycled containerboard products comprise approximately half of the total containerboard sales volumes.

Average benchmark kraftliner prices increased by 14%, recycled containerboard prices by 20% and white top containerboard prices by 14% compared to 2010 levels. However, closing prices were down by 11% for kraftliner from 31 December 2010 and closing benchmark prices of all containerboard products were well below the highs achieved during the year. Price increases were announced in January 2012. The actual price increases achieved will be subject to individual negotiations with customers, and will take effect towards the end of the first quarter of 2012.

Box price increases more than offset the increased paper prices, leading to margin expansion and a significant increase in underlying operating profit, albeit off a low base.

Costs of recovered fibre and wood increased significantly during the year, with average benchmark recovered fibre prices increasing by 28%. Some relief was experienced in the second half of the year with recovered fibre prices dropping sharply off their highs. Wood costs increased in excess of 10% during the year. Fixed cost increases were largely inflation driven.

Productivity, measured by output per person, improved by 10% compared to the prior year. Capital expenditure of €44 million was incurred during the year.

The overall safety performance has improved by 37% compared with the previous year, with a larger contribution by the downstream converting plants. Numerous actions have been implemented to improve the safety performance in the business with a focus on non-routine tasks, working at heights and workplace transportation.


Syktyvkar, Russia

Europe & International Division: Bags & Coatings business

			2011	2010
Financial statistics	Net segment assets	€ million	**1,279**	1,333
	Capital expenditure	€ million	**110**	92
	Segment revenue	€ million	**2,478**	2,226
	Underlying operating profit	€ million	**228**	133
	ROCE	%	**19.0**	11.8
Production	Kraft paper	’000 tonnes	**956**	985
	Industrial bags	Million units	**3,958**	3,850
	Coatings and release liner	Million m^2	**3,357**	3,187
	Pulp	’000 tonnes	**1,033**	1,032
	Number of production sites		**66**	61
Employees	Number of employees	Hundreds	**83**	80
	TRCR	Per 200,000 man hours	**1.76**	1.58
Eco-social footprint	Total water input	’000 m^3	**95,906**	
	Energy usage	TJ	**32,677**	
	CO_2e emissions	’000 tonnes	**767**	
	Waste to landfill	’000 tonnes	**56**	
	FSC™/PEFC CoC certified wood	%	**35**	
Market positions	No. 1 in kraft paper in Europe No. 1 in industrial bags in Europe No. 1 in commercial release liner in Europe			

The ROCE of the Bags & Coatings business of 19.0%, compared to 11.8% in 2010, reflects the very positive trading environment, particularly in the first half of the year.

A 71% increase in underlying operating profit to €228 million was largely due to significant selling price increases in kraft paper (approximately 20% increase in year-on-year average prices) and strong sales volumes during the first half of the year. Weaker end user demand and destocking in the value chain led to the kraft paper business taking significant downtime to manage inventory levels in the second half of the year. While weakness in end user demand in Europe was evident from early in the second half, export demand remained strong throughout the period, weakening only in the fourth quarter. Exports comprise approximately 55% of total kraft paper sales. Limited further downtime is anticipated during the first quarter of 2012 as the outlook is improving, with evidence of an end to the destocking process. However, sales prices in the first quarter are down compared to average prices in the fourth quarter of 2011.

Increases in wood costs, currency headwinds and the detrimental impact of the commercial downtime taken negatively impacted the overall cost base.

Operating performance in all kraft paper mills was excellent, although downtime in the second half of the year impacted productivity. The total commercial downtime, the majority of which was taken towards the end of the third quarter and during the fourth quarter of 2011, amounted to approximately 10% of annual production capacity.

In the downstream industrial bags business, selling price increases more than offset increased paper input costs. Together with the benefits of integrating the Smurfit Kappa bag plants acquired in 2010, this gave rise to a significant improvement in underlying operating profit. Weaker end user demand impacted sales volumes in the second half of the year, resulting in a small decline in total sales volumes for the year. The restructuring, following the acquisition in 2010 of the Smurfit Kappa bag plants in Spain, France, Italy and Poland (acquired in January 2011), has been largely completed.

The coatings & consumer packaging business continued to perform well, with underlying operating profit at similar levels to the previous year. Some margin pressure was experienced, with growth constrained by the macroeconomic environment, although variable cost increases were largely passed on to customers. Following some internal restructuring and renewed focus on higher growth and value-adding products, the extrusion coating segment delivered a pleasing improvement in performance, while the consumer packaging segment remained stable. The release liner segment was negatively impacted in the second half by the costs of starting up new production lines, the benefits of which are expected to be realised in 2012. The sale of Unterland, a flexible packaging business, was completed in October 2011.

Safety remains a critical focus area, particularly in light of the fatality earlier in the year. The diverse nature of the operations in this business means that significant reliance is placed on senior management in each individual operation. A strong focus in 2012 will be on further improving the safety leadership skills of the respective operations' managers and on consistently implementing best practices across operations.

South Africa Division

			2011	2010
Financial statistics	Net segment assets	€ million	**828**	953
	Capital expenditure	€ million	**27**	28
	Segment revenue	€ million	**569**	580
	Underlying operating profit	€ million	**62**	64
	ROCE	%	**8.9**	8.4
Production	UFP	'000 tonnes	**234**	278
	Containerboard	'000 tonnes	**258**	260
	Pulp	'000 tonnes	**753**	702
	Number of production sites		**2**	2
Employees	Number of employees	Hundreds	**19**	19
	TRCR	Per 200,000 man hours	**0.86**	0.97
Eco-social footprint (includes Mondi Shanduka Newsprint joint venture)	Total water input	'000 m^3	**33,696**	
	Energy usage	TJ	**29,479**	
	CO_2e emissions	'000 tonnes	**1,331**	
	Waste to landfill	'000 tonnes	**112**	
	Forestry assets	Hectares	**307,000**	
	FSC™/PEFC CoC certified wood	%	**80**	
	Area of land set aside for conservation		**77,000 hectares (25% of landholding)**	
Market positions	No. 1 in office paper in South Africa No. 1 in white top kraft liner in South Africa			

Underlying operating profit of €62 million was marginally down on the previous year. The ROCE of 8.9% reflects a continuing improvement, but remains short of targeted levels.

Average benchmark pulp prices declined by 4% year-on-year. While pricing held up well in the first half, the second half saw a significant decline in prices, such that the benchmark closing price for BEKP pulp was down around 23% on the level at the end of 2010. Average benchmark white top containerboard prices increased by approximately 14% year-on-year, but weaker demand towards the end of the year resulted in some commercial downtime and a somewhat weaker pricing

Business review
continued

Richards Bay, South Africa

environment. Input costs increased, mainly as a result of increased wood, energy and chemical costs.

Despite the weaker trading environment, management actions have ensured that underlying operating profit remained largely unchanged. The business benefited from the mothballing of the 120,000 tonne per annum UFP machine in Merebank and the related restructuring programme which delivered both substantial cost savings and improved margins arising from an increased focus on the domestic market. The integrated pulp and paper operation at Richards Bay achieved record saleable production in excess of 750,000 tonnes in the calendar year.

The business continues to focus on operational efficiencies and improvement opportunities with strong emphasis on energy efficiency and self-generating capacity.

The Group continues to pursue the settlement of land claims in line with its commitments in this regard. The South Africa Division continues to work closely with the relevant government departments and hopes to settle further claims during the course of 2012.

During 2011, approximately 25,000 hectares were harvested on Mondi plantations in South Africa. Approximately 26,000 hectares were re-established, of which 20,000 hectares were planted and the balance grown from harvested stumps (coppicing). Approximately 29.5 million trees were planted during the year to ensure sustained or enhanced production. Additionally, an area of 77,000 hectares (25% of landholding) has been set aside for conservation purposes.

The safety performance for the year was marred by the fatality in our forestry operations. The incident highlighted basic issues in contractor controls, culminating in the implementation of a more rigorous approach to our high risk, manual tree felling operations. Overall, the number of reported incidents showed an encouraging downward trend. The focus in 2012 will include a critical review of safe work procedures, safe systems and risk assessments and the full implementation of a one-man one-lock plant isolation system at our mills.

Newsprint joint ventures

			2011	2010
Financial statistics	Net segment assets	€ million	**59**	106
	Capital expenditure	€ million	**4**	7
	Segment revenue	€ million	**164**	492
	Underlying operating loss	€ million	**(18)**	(4)
	ROCE	%	**(19.2)**	(2.8)
Production	Newsprint	'000 tonnes	**313**	315
	Number of production sites	'000 tonnes	**2**	2
Employees	Number of employees	Hundreds	**2**	6
Eco-social footprint	As the operator of the Mondi Shanduka Newsprint (MSN) joint venture assets, the eco-social footprint of the South Africa Division includes the MSN joint venture. Figures for Aylesford Newsprint are not separately available.			

2010 results include Europapier up to the date of disposal of 4 November 2010.

The returns of the Newsprint businesses were extremely disappointing with the segment recording an underlying operating loss of €18 million in the period.

Selling price increases were insufficient to restore the Aylesford Newsprint joint venture to profitability. In addition, the business incurred further non-recurring waste disposal costs in the second half. The poor operating performance and outlook for this business necessitated an impairment of the underlying assets with the Group's attributable share being €33 million.

Restructuring activities have been announced with further cost containment initiatives to be implemented during 2012 as a result of ongoing pricing pressure in European newsprint.

The MSN joint venture in South Africa was negatively impacted by currency translation effects and rising electricity costs. The business has however concluded renewed contracts with its major customers at prices which will offset input cost increases over the coming year and restore a reasonable level of profitability.

We are

focused on performance through continuous productivity improvement and cost reduction.

Board of directors

Cyril Ramaphosa **David Williams** **David Hathorn**

Joint chairmen

Cyril Ramaphosa, 59: 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 brewing group SABMiller plc, mining group Lonmin plc 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 honorary doctorates from a number of institutions, including the University of Pennsylvania and the University of Massachusetts.

David Williams, 66: 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 where he is the senior independent director. He also chairs the audit committees of all three companies. David is also a former non-executive director of the Peninsular & Oriental Steam Navigation Company, Taylor Wimpey plc, George Wimpey plc, Dewhirst Group plc and Medeva plc.

Executive directors

David Hathorn, 49: 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, 42: 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

Andrew King **Peter Oswald** **Anne Quinn**

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, 49: 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, 60: 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.

Board of directors
continued

Stephen Harris

Imogen Mkhize

John Nicholas

Stephen Harris, 53

Stephen Harris was appointed to the Mondi Boards in March 2011. He chairs the DLC sustainable development committee and is a member of the DLC audit, nominations and remuneration committees.

He is chief executive officer of Bodycote plc, a leading provider of thermal processing services. A chartered engineer, he graduated in engineering from Cambridge University and has a master's degree in business administration from the University of Chicago, Booth School of Business. He spent his early career in engineering with Courtaulds plc and then moved to the US to join APV Inc from 1984 until 1995, where he held several senior management positions. He was appointed to the board of Powell Duffryn as an executive director in 1995 and then went on to join Spectris plc as an executive director from 2003 until 2008. He was also a non-executive director of Brixton plc between 2006 and 2009.

Imogen Mkhize, 48

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

Imogen graduated in information systems from Rhodes University in 1984 and gained an MBA at Harvard Business School in 1995. She completed a Diploma in Company Direction with the Institute of Directors/GIMT in 2000 and has been involved in corporate governance for over two decades. 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 Rhodes University Board of Governors and chairman of Rhodes Business School. Imogen is a former director of engineering group Murray & Roberts Holdings Limited and was formerly a member of the Harvard Business School Global Alumni Board.

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

John Nicholas, 55

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 companies.

DLC executive committee and company secretaries

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

John Lindahl **Peter Machacek** **Ron Traill** **Philip Laubscher** **Carol Hunt**

John Lindahl, 52: Group technical director
John Lindahl graduated in pulp and paper engineering from the Technical University of Helsinki in 1985. He also holds an MBA from Jyvaskyla University from 1996.

John has had an extensive career in the forest industry working in different operational managerial positions in Finland, the US and France in companies including M-real, Myllykoski and UPM. At UPM he then moved on to tasks within corporate technology and investment co-ordination.

From the industry he moved on to consulting and engineering company Pöyry, where he held different executive positions in the forest industry business group, being involved in advisory services, pre-engineering studies and major implementation projects for the global pulp and paper industry for the last 11 years.

John joined Mondi as Group technical director in August 2011, with worldwide responsibility for projects, operational optimisation and technical evaluation of major acquisitions.

Peter Machacek, 59: 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, Štěti 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 retired on 31 December 2011.

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

Ron Traill, 57: Chief executive officer: South Africa Division
Ron Traill graduated in mechanical engineering and management from Dundee Colleges 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, 56: 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, 50: 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 its committees, an environment of compliance and ethical behaviour is created with approved policies and procedures clearly communicated throughout the Group. In 2011 Mondi continued to deepen and broaden its corporate governance practice and culture. We see this as an important part of our work.

At Mondi we remain committed to strong ethical values and professionalism in all that we do and the DLC Board support the highest standards of corporate governance and best practice. The principles of transparency, integrity and accountability guide the behaviour of the directors. We will continue to review our corporate governance structures in the coming year.

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 both South Africa and the UK. Mondi Limited and Mondi plc have separate corporate identities. Mondi Limited has a primary listing on the JSE Limited (JSE) and 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 boards of Mondi Limited and Mondi plc (together the 'Boards') review and monitor compliance with the governance and regulatory requirements in both South Africa and the UK. The report below provides an insight into the complexities managed by the Boards in order to maintain the highest standards of governance throughout Mondi.

Compliance statement

Mondi has complied throughout the year with the principles contained in the South African King III Code of Corporate Governance Principles (available at www.iodsa.co.za) and the UK Corporate Governance Code issued by the Financial Reporting Council (available at www.frc.org.uk) save as set out below:

- Cyril Ramaphosa, joint chairman, was not considered independent upon appointment due to his connection with Mondi through the Shanduka Group as explained more fully on page 59;
- the Boards determined that the DLC sustainable development committee provided the appropriate oversight for the sustainability reporting in the integrated report rather than the DLC audit committee, as recommended under King III. Due to the nature of Mondi's business the DLC sustainable development committee regularly reviews all key sustainability issues for the Group, meeting six times a year and reports directly to the Boards. Therefore it is considered to be better placed to review the integrity of the sustainability reporting. The DLC sustainable development committee therefore provides the assurance on sustainability issues in the integrated report; and
- within the constraints of complying with the differing legal and regulatory requirements of both South Africa and the UK, Mondi has produced a report that addresses, as far as possible, the King III requirements for an integrated report.

Board structure

The Boards, led by the joint chairmen, provide leadership for the Group. There is a schedule of matters specifically reserved for the Boards. This is reviewed annually and is available on the Mondi Group website at www.mondigroup.com. In addition, in view of the broad nature of the Boards' responsibilities, certain specific duties have been delegated to committees as detailed below. The key committees are audit, nominations, remuneration and sustainable development. There is also an executive committee dealing with the day to day management of the Group, implementing decisions made by the Boards and managing the operational and financial performance. The chairmen of each committee report regularly to the Boards.

Following the successful completion of the two major strategic capital expenditure projects in Poland and Russia, the Boards continue to be focused on the review and implementation of the longer term strategic direction of the Group. With the global economic climate continuing to impact the wider business operating environment, ensuring the Group operates within a framework of robust risk management, strong corporate governance and ethical behaviour influenced the 2011 agenda.

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 in response to any matters raised or changes in circumstances or regulation.

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. In 2011, in response to the UK Bribery Act, the Boards agreed a new business integrity policy for the Group. Also, consideration of the business plan and budget, the integrity of the integrated report and 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.

The Boards add value to Mondi through setting the tone for the Group and their review and independent oversight of the:

- governance and ethical responsibilities;
- effective leadership through monitoring risk and effective controls;
- strategic review;
- sustainable and ethical business practices; and
- constructive challenge of management.

This is achieved through an established rolling agenda that is reviewed and updated regularly to accommodate changes in circumstances. Whilst the majority of directors have been with the Group since listing in July 2007 thereby providing consistency and understanding of Mondi, new directors joining at the end of 2009 and in early 2011 have brought new thinking and insight to the board debates.

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

Non-executive director meetings, chaired by the joint chairmen (except when their performance is being considered), are held twice a year. One of these meetings is attended by the chief executive officer in order to provide input to the discussions on executive performance and succession.

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 2011, in line with market practice, Mondi maintained directors' and officers' liability insurance.

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.

The directors holding office during the year ended 31 December 2011 are listed below, together with their attendance at board meetings. As at 31 December 2011 there were nine directors, with each of the four non-executive directors considered by the Boards to be independent. There continues to be a strong mix of skills and industry experience, particularly in Europe and South Africa, locations important to Mondi's operations. Those in office as at the date of this report, together with their biographical details, can be found on pages 52 to 54.

Corporate governance report
continued

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
Stephen Harris[2]	Non-executive director	Yes	March 2011	1	1	3
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[3]	Non-executive director	Yes	May 2007	1	1	1
Imogen Mkhize	Non-executive director	Yes	May 2007	1	1	6
John Nicholas	Non-executive director	Yes	October 2009	1	1	6
Peter Oswald[4]	Chief executive officer, Europe & International Division	No	January 2008	1	1	5
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.
2 Stephen Harris, having been appointed on 1 March 2011, was unable to attend one of the DLC Board meetings due to a commitment in place prior to his appointment.
3 Colin Matthews resigned from the boards of Mondi Limited and Mondi plc on 5 May 2011 to enable him to focus on his role as chief executive officer of BAA, the British airport operator.
4 Peter Oswald was unable to attend one DLC Board meeting due to illness.

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. Having joint chairmen, one based in South Africa and the other in the UK, ensures that the Group and its stakeholders benefit from an extensive knowledge and experience of the jurisdictions relating specifically to its dual listed structure. With a continually changing regulatory and financial operating environment in both South Africa and the UK, having joint chairmen is considered important for the effective leadership of the Group. The joint chairmen maintain a regular dialogue with each other and manage the Boards through mutual agreement. Half the DLC 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.

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, consideration of succession and setting the agenda;
- ensure high standards of corporate governance and ethical behaviour;
- 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.

In addition, they work closely on matters such as the relationships with major shareholders, government, analysts, media and other external relationships at a senior level.

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 52. There have been no changes to the commitments of David Williams during the year. Cyril Ramaphosa resigned from the boards of Macsteel Global b.v. and SASRIA Limited at the end of 2011.

David Williams was independent upon appointment, however, Cyril Ramaphosa was not considered independent upon appointment in view of his existing connection with Mondi as chairman of the Shanduka Group, which has a shareholding in Mondi Shanduka Newsprint (Proprietary) Limited and, until its demerger in July 2011, a holding in Mpact Limited (formerly Mondi Packaging South Africa (Proprietary) Limited) (see page 158). 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 discussions involving matters in which he may have an interest through the Shanduka Group.

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.

Senior independent director

Anne Quinn is the senior independent director providing support to the joint chairmen. During the year she 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 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 continued to evolve during 2011.

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.

Appointments to the Boards

During the year Stephen Harris was appointed as an independent non-executive director to replace Colin Matthews who retired from the Boards at the conclusion of the annual general meetings in order to focus on his role as chief executive officer of BAA, the British airport operator.

The appointment of Stephen Harris followed the procedure established by the Boards and involved the DLC nominations committee. The DLC nominations committee reviewed the composition of the Boards and considered the skills and type of experience required. One of the key considerations on this occasion was to appoint someone with a sound knowledge and understanding of sustainability and safety issues as they would be required to chair the DLC sustainable development committee. External search agents were briefed and provided a long list of diverse candidates, including of differing backgrounds and gender. The list was reviewed by David Williams, joint chairman and Anne Quinn, senior independent director. David and Anne interviewed a short list before narrowing the search to two potential candidates who were then seen by a number of other non-executive and executive directors. Reports were made to the DLC nominations committee on each of the possible candidates. The committee considered the relative merits and fit of each candidate before recommending the appointment of Stephen Harris to the Boards.

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.

Corporate governance report
continued

Diversity

As a global organisation operating in 28 countries, Mondi seeks to develop and empower all of its employees. Diversity is encouraged and Mondi is committed to the fair and equitable treatment of all, irrespective of origin, race or gender. Mondi is committed to employing, empowering and developing competent people with the necessary potential required to expand their careers and become valuable participants in sustaining its competitive business advantage.

In South Africa we are committed to making a positive contribution to the process of transformation. We have taken active steps to meet the requirements of broad-based black economic empowerment (BBBEE), including establishing transformation forums in our South African operations to allow our employees to discuss equity and training-related issues and ideas.

In line with our philosophy of encouraging diversity and excluding discrimination, we provide equal opportunity for men and women in the Group. At the end of December 2011, 21% of our employees were women and 18% of our senior managers were women. We also have 22% female representation on the Boards.

With gender diversity high on the international agenda the Boards have reviewed the Mondi talent pool and considered gender diversity performance indicators. Specific recruitment commitments with a percentage of female candidates at long and short list stage for each management function in accordance with industry standards have been agreed. A working group has also been established to consider the needs of women in business and how best Mondi can support career development. The establishment of a kindergarten at the Mondi corporate office in Vienna, Austria is one example of putting these proposals into practice. Mondi is also increasing its involvement with universities to encourage female graduates to consider careers within the Group.

Mondi currently has good gender diversity at Board level. However, it remains a challenge to ensure adequate gender diversity at senior management level. With the measures being put in place it is anticipated that this will change over time.

Development and performance assessment

New directors participate in an induction programme that is tailored to their specific duties on the Boards. The programme includes meetings with executive management, site visits and meetings with any relevant external advisers. 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.

All directors are provided 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.

Site visits are arranged where the opportunity arises in conjunction with Board meetings and senior management throughout the Group are provided with opportunities to meet and present to the Boards.

Regular updates on governance and regulation are provided to the Boards by the company secretaries and external advisers. During the year the South African legal advisers presented on changes to South African company law and the UK legal advisers provided an update on governance developments and on directors' duties. In addition, an economist presented views on the South African economic environment. Corporate function specialists also present to the Boards at regular intervals. Directors are also encouraged to attend relevant training courses, workshops and seminars which support their position on the Boards and committees.

There is a policy in place setting out the parameters regarding the appointment of any executive director as a non-executive of another company. Although valuable experience can be gained from such roles it is important for the Boards to ensure the appropriateness and number of such commitments. A director will retain any fee paid to them in respect of directorships 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 which for 2011 amounted to €2,400 in total for the year.

Performance evaluation

Following the 2010 external review conducted by Boardroom Review an action plan was agreed that has been reviewed and monitored during 2011.

In response to the agreed action plan, during the year a formal review by the Boards of executive succession was undertaken and the joint chairmen met with the chief executive officer on a number of occasions to discuss the proposals. The Boards had the opportunity during 2011 to consider the current and future composition of the Boards and committees with the retirement of Colin Matthews at the conclusion of the annual general meetings and the process for the appointment of his replacement. Suggestions regarding development opportunities have also been implemented.

For 2011 an internal review of the Boards, committees and individual directors was undertaken by the joint chairmen with support from the company secretaries. The senior independent director facilitated the review of the performance of the joint chairmen. The evaluations were conducted through a series of questionnaires and interviews. The results were reviewed by the DLC nominations committee and an action plan drawn up that was considered and approved by the Boards. The key themes arising from the 2011 review were:

- a continued focus on director development and training in light of changing regulation and governance in both South Africa and the UK; and
- the inclusion in the rolling agenda of reviews on industry specifics to broaden understanding of the sector in which Mondi operates.

The Boards continue to benefit from the annual review process, the results from which help guide the future focus of meeting agendas and behaviours.

Procedure for conflicts of interest

Company law, the memorandum of incorporation of Mondi Limited and the articles of association of Mondi plc allow directors to authorise potential conflicts. A formal procedure for the reporting and review of any potential conflicts of interest involving the Boards with support from the company secretaries are in place, with authorisations reviewed on an annual basis.

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.

Only committee members are entitled to attend committee meetings, although 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

2011 has presented some challenges for the committee, a change of membership, the technically complex Mpact demerger, and the pending rotation of the UK external audit partner to name a few. I am pleased to report that the Group's transparency, policies and internal control systems have enabled all these issues to be properly considered by the committee. The committee strives to follow best practice and monitors governance developments in South Africa, the UK and Europe. We have noted, in particular, the extensive proposals for change that are currently being considered in Europe.

John Nicholas
Chairman of the DLC audit committee

Members	Committee member since	DLC audit committee (four meetings)
Stephen Harris[1]	March 2011	2
Colin Matthews[1]	May 2007	1
John Nicholas (chairman)	October 2009	4
Anne Quinn	May 2007	4

[1] Stephen Harris was appointed a committee member on 1 March 2011 and Colin Matthews resigned from the committee on 5 May 2011. Stephen was unable to attend one meeting due to a commitment in place prior to his appointment.

Corporate governance report
continued

The DLC audit committee operates on a Group-wide basis. Following changes in South African company law the committee is now constituted as a statutory committee in respect of the duties set out in the South African Companies Act 2008 and a DLC committee of the Boards in respect of other duties assigned to it by the Boards. The committee met four times during the year and has four meetings scheduled for 2012. 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 in order to provide assurances in support of the work of the committee. 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 considered and satisfied itself that Andrew King, 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, including IT risks, ensuring that management are identifying, managing and reporting risks appropriately, details of which can be found on pages 24 to 27 of this integrated 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 appropriately discharged its responsibilities as set out in its terms of reference during the year and has operated in compliance with relevant legal, regulatory and other responsibilities. Specific matters reviewed by the committee during year included:

- reviewing the financial information and integrity of the Mondi Group financial announcements, in particular, the half-yearly results and full year results, including reports from the Group financial controller and the external auditors on those results and recommending them to the Boards;
- considering, and recommending to the Boards, the implementation of significant accounting policies for the 2011 financial year;
- oversight of the Mondi Group integrated report and financial statements, in particular the evaluation of all significant judgements and reporting decisions affecting the report and the integrity of the financial statements, considering the assurance provided by the DLC sustainable development committee regarding the sustainability reporting and recommending the report for approval to the Boards;
- reviewing and approving the external audit plan, the proposed fees for the 2011 year end and the engagement letters;
- reviewing the effectiveness, independence and objectivity of the external auditors and considering their re-appointment for recommendation to the Boards;
- monitoring the risk management policy, plan and risk tolerance levels and the effectiveness of the risk management process, including an annual identification

and review of all key Group risks and a more detailed review of at least three of those risks at each meeting, and specifically reviewing information technology risk management;

- monitoring the effectiveness of the Group's system of internal control;
- reviewing the non-audit services policy and the services approved in accordance with the policy;
- 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 2011 and 2012; reports received via Speakout (the Group's whistle-blowing facility); and reports on fraud;
- 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 reserved for review by the committee;
- reviewing the audit and risk management activities of the Group's South African widely held companies until revised requirements came into force following the implementation of the new South African Companies Act; and
- a review of the terms of reference of the committee, its performance against those terms and the 2012 work programme for the committee.

The DLC audit committee oversees the relationship with the external auditors; is responsible for the review of 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 quality and 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 system 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 lead audit partner for the UK is changing by rotation in 2012. The committee confirmed that Deloitte & Touche is included in the JSE list of accredited auditors. Following these considerations the committee made a recommendation to, which was accepted by, the 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 2012.

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 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. Although 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. During 2011 the services of Deloitte were, however, used in connection with the demerger of Mpact as it was necessary for the circular to be signed-off by the reporting accountant. Deloitte are, by virtue of being appointed as Mondi's auditors, the reporting accountant. This has had the effect of increasing the level of fees for non-audit services in 2011. 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 109 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 has responsibility for the appointment of the heads of internal audit. The internal audit team plan and undertake audits of the businesses to ensure that the controls operating in the businesses are appropriate, effective and conform with Mondi controls and procedures. 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. In 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 review concluded positively on the effectiveness of the internal audit function whilst making some recommendations to further improve on this. During 2011 the recommendations from the external review have been progressed and reviewed by the committee. The committee has concluded that the internal audit function remains effective in carrying out its remit.

DLC nominations committee

2011 was an active year for the committee with particular focus on securing the appointment of a new non-executive director. Time was also spent on the continuing evaluation and monitoring of board performance and ensuring that the challenges of succession have been addressed.

David Williams
Chairman of the DLC nominations committee

Members	Committee member since	DLC nominations committee (four meetings)
Stephen Harris[1]	March 2011	2
Colin Matthews[1]	January 2008	1
Imogen Mkhize	January 2008	4
John Nicholas	October 2009	4
Anne Quinn	May 2007	4
Cyril Ramaphosa	May 2007	4
David Williams (chairman)	May 2007	4

[1] Stephen Harris was appointed a committee member on 1 March 2011 and Colin Matthews resigned from the committee on 5 May 2011. Stephen was unable to attend one meeting due to a commitment in place prior to his appointment.

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 four times during the year. The chief executive officer is invited to attend meetings and provides information to support the work of the committee, in particular with regard to succession planning.

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. It ensures that the required balance of skills, experience and knowledge appropriate for the Mondi dual listed company structure 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 considered the process for the board evaluation and decided that an internal review would be conducted in 2011. 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, succession planning for the executives and senior management was debated and consideration was given to the time commitment required from each director. The committee also specifically addressed the likely succession plans for the chief executive officer role. The presentation of the succession plans are broken down by business unit and set out details of the current role holder together with those persons who may be ready in the near term, three and five years' time to fill the role. When considering the succession plans, thought is also given to meaningful cross business unit and division transfers. Following the output from the 2010 evaluation process, a key area of consideration for the committee for 2011 was 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. Despite changes of non-executive directors at the end of 2009 and in 2011, four of the six non-executives, including the joint chairmen, were appointed in 2007 at the time of the demerger of Mondi from Anglo American plc. Non-executive succession in particular therefore remains a key focus area for the committee acknowledging the need to effect changes with 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 reviewed governance developments the committee took the decision that all directors should stand for re-election at the annual general meetings in 2011. All directors will stand for re-election again in 2012. With a change in the non-executive directors made during the year, the process for which is set out in more detail above, the committee also considered the consequential changes to the composition of each committee, reviewing the current membership of each and the skills available.

DLC remuneration committee

Members	Committee member since	DLC remuneration committee (five meetings)
Stephen Harris[1]	March 2011	2
Colin Matthews[1]	May 2007	1
Imogen Mkhize	May 2007	5
Anne Quinn (chairman)	May 2007	5
David Williams	May 2007	5

[1] Stephen Harris was appointed a committee member on 1 March 2011 and Colin Matthews resigned from the committee on 5 May 2011. Stephen was unable to attend two meetings due to commitments in place prior to his appointment.

The DLC remuneration committee operates on a Group-wide basis. The committee met five times during the year and plans to meet four times in 2012 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 68 to 78.

DLC sustainable development committee

Members	Committee member since	DLC sustainable development committee (five meetings)
Stephen Harris (chairman)[1]	March 2011	4
David Hathorn	May 2007	6
Colin Matthews (former chairman)[1]	May 2007	2
Anne Quinn	August 2009	6

[1] Stephen Harris was appointed a committee member on 1 March 2011 and as chairman of the committee on 6 May 2011. Colin Matthews resigned from the committee on 5 May 2011.

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 2012. 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

Corporate governance report
continued

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 41 and further details, including a full review of Mondi's sustainability activities and progress in 2011, 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 55. The committee is chaired by David Hathorn and met eleven times during the year, with nine meetings scheduled for 2012.

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 stakeholders

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.

Summaries of the feedback from these discussions, meetings and any site visits are 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. 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 financial 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.

During 2011, Mondi did not receive any requests for access to records under the South African Promotion of Access of Information Act 2000.

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 in South Africa and the UK. 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 75 to 78.

Business ethics

The Boards have adopted a Code of Business Ethics, which applies throughout the Group and sets out five fundamental principles that govern the way in which Mondi and its employees conduct business. Three of the principles are monitored and reviewed by the DLC sustainable development committee (human rights, stakeholders and sustainability) and two by the DLC audit committee (legal compliance and honesty and integrity).

The code incorporates the requirement for the Group to comply with all applicable laws and regulations. Although the Group does not have a single compliance function the legal teams of each division, together with the company secretaries of both Mondi Limited and Mondi plc, have oversight of compliance, including consideration of the application of non-binding rules, codes and standards. Regular reports are presented to the Boards, or relevant committees, on compliance matters.

The detailed application of the principles of the code is documented in Mondi's policies and procedures, in particular the Mondi sustainable development policy. 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.

During the year the Boards approved and implemented a new business integrity policy, partly in response to the UK Bribery Act, which supports the aims of the code. The policy consolidated a number of existing policies in order to reinforce the standards of ethical behaviour expected throughout the Group by employees but also by others involved in the business activities of Mondi.

Mondi has not been engaged in any legal actions for anti-competitive behaviour, anti-trust or monopoly practices during the year. Mondi has also not received any material fines or non-monetary sanctions for non-compliance with laws and regulations.

Annual general meetings

The annual general meetings of Mondi Limited and Mondi plc will be held on 3 May 2012 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 sent to all shareholders in advance of the meetings, in accordance with the corporate governance codes of South Africa and the UK.

Remuneration report

Introduction from the DLC remuneration committee chairman

I am pleased to present the report of the remuneration committee on directors' remuneration for the year to 31 December 2011.

Mondi performed strongly in 2011, despite the turmoil in many economies. The Group has seen a 21% increase in underlying EBITDA and basic earnings per share – alternative measure increased by 57%. Return on capital employed increased from 12.3% to 15%.

The structure of reward packages for executive directors – their maximum bonus eligibility and the size of their annual grants under the Long-Term Incentive Plan, each expressed as a percentage of base salary – have remained unaltered since Mondi's listing in 2007. In the last five years, executive directors' on-target total remuneration has therefore increased only in line with the percentage increases in their base salaries. These base salary increases have, since 2007, been lower, on average, than increases awarded to other Mondi employees.

Base salary increases for executive directors from 1 January 2012 are below 3%; this was less than the average percentage increases for other Mondi employees.

Annual bonuses for 2011 recognise Mondi's strong financial performance and the personal performance achievements of individual executive directors. As in previous years, half of the annual bonus awarded to executive directors is in Mondi shares, deferred for three years.

Mondi's total shareholder return exceeded that of most of its competitors in the international paper and packaging sector over the performance periods of the chief executive's 2007-11 Co-Investment Plan and the 2008-10 Long-Term Incentive Plan award which vested during 2011 and this was reflected in the vesting levels of these awards.

The objective of our remuneration policies is to retain and provide incentives for talented individuals to deliver sustained, superior returns for our shareholders. During the year, the committee introduced new shareholding requirements for executive directors to further reinforce the alignment of executives with shareholders, and added 'clawback' provisions to the bonus and long-term incentive plans.

The committee would be pleased to have your support for the policies and practices detailed in our report.

Anne C Quinn
Chairman of the DLC remuneration committee

The 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 74;
- the table of pension contributions in respect of executive directors on page 74; and
- the table of share awards granted to executive directors and associated footnotes on pages 76 and 77.

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), Imogen Mkhize and David Williams, all of whom are independent non-executive directors. Colin Matthews was a member of the Committee until his retirement as a non-executive director on 5 May 2011. Stephen Harris joined the Committee on his appointment as an independent non-executive director on 1 March 2011. 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 David Hathorn, the chief executive officer and Cyril Ramaphosa, joint chairman of Mondi Limited and Mondi plc.

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

The Committee is authorised to seek information from any director and employee of the Group and to obtain external advice. 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 2011, the following advisers provided services to the Committee:

- New Bridge Street ('NBS') – 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 of other colleagues 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:

- base 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.

Base salary

Salaries are reviewed annually, normally with effect from 1 January, and are targeted broadly at the median position in the relevant market. In reviewing salaries, the Committee has regard to business performance, individual performance, experience in the role and salary increase levels for other employees in the Group. The Committee also considers practices in companies in the UK market which are of a similar size, complexity and international scope to the Group and international peers in the paper and packaging sector.

Current salary levels, and increases awarded in January 2012, are as follows:

	From 1 January 2012	From 1 January 2011	Increase
David Hathorn[1]	£822,000	£800,000	2.75%
Andrew King[1]	£463,000	£450,000	2.89%
Peter Oswald	€847,000	€824,000	2.79%

[1] David Hathorn's and Andrew King's salaries are denominated in pounds sterling. In the remuneration tables on page 74 euro amounts are reported based on exchange rates on the dates actual payments were made.

These increases compare with average increases of approximately 4% awarded to Mondi employees in Europe and 7% in South Africa.

Executive directors' salaries will next be reviewed with effect from 1 January 2013.

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 base salary in the case of David Hathorn and 120% of base salary in the case of Andrew King and Peter Oswald.

For 2011, the bonus for executive directors was based 60% on Group financial performance, measured by ROCE and EBITDA, 10% on Group safety performance and 30% on personal performance targets. Performance on financial and safety targets was as follows:

	Weighting (points)	Actual (points)
Group financial performance (EBITDA and ROCE)	60	54.08
Group safety performance	10	0
Total	70	54.08

The 54.08% of bonus potential that was earned in relation to Group financial performance is consistent with Mondi's strong financial performance in the 2011 financial year including ROCE of 15%, 2.7% higher than the prior year, and a 21% increase in underlying EBITDA.

As explained in the report from the directors on the Group's sustainability performance, the safety targets set for 2011 were, regrettably, not met; this resulted in none of the bonus in respect of this component being payable. The Group is renewing and re-emphasising its safety efforts in 2012, in line with its sustainable development philosophy of seeking to achieve zero harm.

The personal performance objectives are set following a rigorous process involving the chief executive, joint chairmen and the Committee. Of the 30 percentage points of bonus opportunity related to personal performance, 10 percentage points are for excellence in people management and leadership, which includes such items as development and succession of talent. The remaining 20 percentage points are for divisional financial and operational metrics such as sales and profit growth, costs and management of working capital, productivity growth, rationalisation of production capacity, maximising return from capital projects and ensuring that acquisitions are successfully integrated.

Bonuses for 2011 in relation to personal performance ranged between 24% and 26% of bonus potential, out of a maximum of 30%.

Details of the bonus amounts awarded are presented on page 74.

For 2012, 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 2011, 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 2011, the performance conditions are based on two performance measures of equal weight – relative total shareholder return (TSR) and ROCE, measured over a three-year performance period ending on 31 December 2013. The Committee believes that this combination of metrics provides an appropriate means of aligning the operation of the LTIP with shareholders' interests and the Group's business strategy.

The TSR performance condition is based on the Group's TSR relative to a group of competitor companies. For the 2009, 2010 and 2011 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 and 2011)[1]	Weyerhaeuser (2009)[1]

[1] As previously reported, Weyerhaeuser was replaced with Domtar in 2010 as its business structure is considered more comparable 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 10%. 25% of this part of the award (i.e. 12.5% 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 14% (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 2012.

The LTIP awards that were made in 2008, with a three-year performance period that ended on 31 December 2010, were reviewed by the Committee in February 2011 against the (equally weighted) TSR, ROCE and EPS performance conditions. Maximum performance was achieved against the TSR targets resulting in 33.3% vesting in March 2011. The balance of 66.7% lapsed as a result of the threshold ROCE and EPS targets not being met.

Co-Investment Plan

David Hathorn participated in a one-off, shareholder approved, share award under a Co-Investment Plan at the time of the Group's demerger from Anglo American plc in 2007. Under this Plan, he made an investment of £1,000,000 from his own funds in Mondi plc shares in August 2007. Provided he retained his investment shares and remained in the Group's employment, he was eligible to receive a match of up to 250% of the number of investment shares based on a relative TSR performance condition measured over a four-year period from July 2007. As the TSR performance achieved by Mondi plc over the performance period was better than the upper quintile – Mondi plc was the top-performing company in the comparator group – the Committee approved the maximum vesting in accordance with the Plan rules. Vesting of all Plan shares as detailed in the share award table on page 77 therefore took place on 5 July 2011.

Clawback

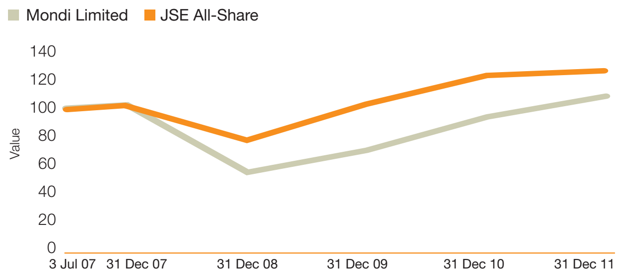
Consistent with best practice, the Committee introduced clawback provisions into the BSP and LTIP rules during the year for executive directors and executive committee members in relation to payments/awards made on or after 1 January 2011. Such provisions empower the Committee to seek to recoup payments/awards in the exceptional event that performance outcomes were misstated.

Performance graphs

The following graphs set out the comparative TSR of Mondi plc relative to the FTSE All-Share Index, and Mondi Limited relative to the JSE All-Share Index, for the period between 3 July 2007 and 31 December 2011. Those indices were chosen because they are broad equity market indices of which Mondi plc and Mondi Limited, respectively, are members:

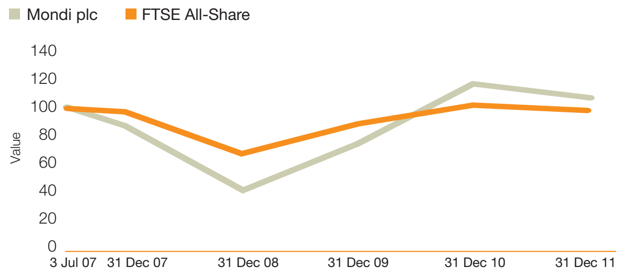
TSR graph of Mondi Limited and JSE All-Share Index

Source: Thomson Reuters



TSR graph of Mondi plc and FTSE All-Share Index

Source: Thomson Reuters



Pension contributions

The executive directors are eligible to participate in defined contribution pension arrangements and for payment by the Group of a pension contribution of 30% of salary, in the case of David Hathorn, and 25% of salary, in the cases 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 base 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.

Remuneration report
continued

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

Share Incentive Plan ('SIP')
UK employees 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 released free of UK income tax and National Insurance contributions.

Sharesave
UK employees 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 78.

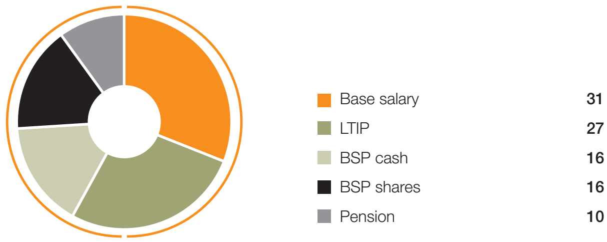
Share ownership requirements
The Committee introduced share ownership requirements during the year. Consequently, the chief executive officer will be required to build a shareholding equivalent to 150% of base salary, and other executive directors a shareholding equivalent to at least 100% of base salary, over a period of not more than five years from the date of appointment to the Boards. As at 31 December 2011, all executive directors had met the shareholding requirements.

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 shown in the charts below. Fixed remuneration constitutes less than 50% of the total package when performance is on-target, and less than 35% of the package at stretch performance.

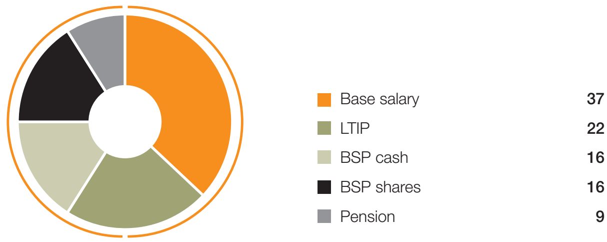
Executive directors' service contracts
David Hathorn and Andrew King are employed under service contracts with both Mondi Limited and Mondi plc. Peter Oswald is employed in Austria under a service contract with Mondi Services AG.

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

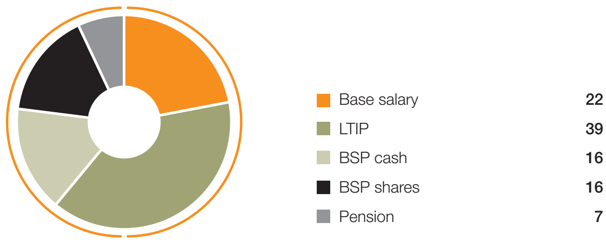
CEO
Target values (%)



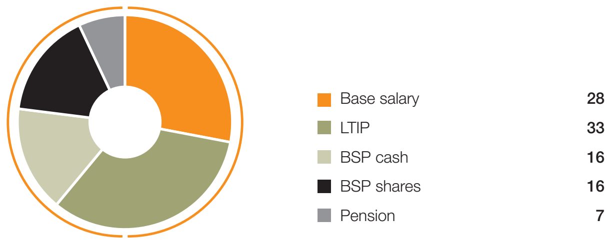
Executive director
Target values (%)



CEO
Maximum values (%)



Executive director
Maximum values (%)



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

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 2016. 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 base 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 that has been 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.

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 2016 but terminable at any time on 12 months' notice

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. Current fee levels are as follows:

Role	Annual fee[2,3]
Joint chairman fee[1]	£257,500
Non-executive base fee	£41,200
Additional fees:	
Senior independent director and DLC remuneration committee chairman fee	£15,450
DLC audit committee chairman fee	£10,300
DLC sustainable development committee chairman fee	£8,240
Attendance fee per meeting (outside country of residence)	£5,150
Attendance fee per day (inside country of residence)	£1,545

1 No additional fees are payable in relation to this role.
2 Fees were increased by 3% with effect from 5 May 2011 following the passing of a resolution at the annual general meetings of Mondi Limited and Mondi plc.
3 Fees are determined in pounds sterling. In the remuneration tables on page 74 euro amounts are reported based on exchange rates on the dates actual payments were made.

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.

Remuneration report
continued

Remuneration for the year ended 31 December 2011

Executive directors' remuneration

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

		Base salary	Annual cash bonus	Value of deferred shares awarded	Other cash benefits	Other non-cash benefits	Total
David Hathorn[1]	2011	€920,175	€538,483	€538,483	€27,720	€15,607	€2,040,468
	2010	€903,629	€602,812	€602,812	€28,100	€19,123	€2,156,476
Andrew King[1]	2011	€517,599	€248,524	€248,524	€22,199	€17,722	€1,054,568
	2010	€501,368	€264,564	€264,564	€22,504	€23,639	€1,076,639
Peter Oswald	2011	€824,000	€386,028	€386,028	€255	€35,346	€1,631,657
	2010	€800,000	€427,200	€427,200	€255	€36,104	€1,690,759

[1] David Hathorn's and Andrew King's remuneration is denominated in pounds sterling. Reported euro equivalent values are based on exchange rates on dates payments were made.

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 2011 and 2010 are:

	Group contribution	
	2011	2010
David Hathorn	€276,053	€271,089
Andrew King	€129,400	€125,418
Peter Oswald	€206,000	€200,000

Non-executive directors' remuneration

	2011			2010		
	Fees	Other benefits	Total	Fees	Other benefits	Total
Cyril Ramaphosa	€293,131	–	€293,131	€292,387	–	€292,387
David Williams	€293,131	–	€293,131	€292,387	–	€292,387
Stephen Harris[1]	€68,140	–	€68,140	–	–	–
Colin Matthews[1]	€27,381	–	€27,381	€90,726	–	€90,726
Imogen Mkhize	€80,354	–	€80,354	€74,435	–	€74,435
John Nicholas	€90,196	–	€90,196	€93,065	–	€93,065
Anne Quinn	€96,162	–	€96,162	€98,913	–	€98,913

[1] For 2011, the fee paid to Stephen Harris covers the period from his appointment on 1 March 2011 until 31 December 2011. The fee paid to Colin Matthews covers the period until 5 May 2011 when he retired as a director.

Remuneration of three most highly paid employees who are not directors of the Group

Disclosure of the remuneration of the three highest-earning employees who are not directors is a requirement of the South African governance code (King III) for financial years commencing on or after 1 March 2010.

In Mondi the employees who are in this position are the members of the DLC executive committee who are not directors of either Mondi Limited or Mondi plc. The aggregate earnings for this group of three executives during 2011 were:

	Base salary[1]	Cash bonus[2]	Value of deferred shares awarded	One-off payments[3]	Other cash benefits	Other non-cash benefits	Total
2011	€1,267,154	€930,599	€240,648	€1,858,756	€109,408	€168,412	€4,574,977

1 Includes 38 monthly salaries, rather than 36, due to a two-month overlap of a retiring executive with his replacement.
2 Includes a €439,000 cash bonus under the BSP to a retiring executive of which half would under normal circumstances have been deferred in shares.
3 Includes a retirement payment to one executive in accordance with his Austrian contractual provisions, an end-of-contract performance related bonus to another for delivery of major projects and a sign-on payment to a third to compensate for value lost under previous employment arrangements when he resigned to join Mondi.

The Group made contributions of €504,124 to pension funds on behalf of these employees during 2011. This included a €210,306 contribution to a legacy defined benefit arrangement on behalf of a retiring executive as required by the fund actuaries in accordance with plan provisions. The remaining executives participate in defined contribution pension arrangements.

The Boards have determined that, given the nature of the dual listed company structure, the executive directors are the only prescribed officers of the Group for purposes of section 66(10) of the South African Companies Act 2008.

Directors' share interests

The beneficial and non-beneficial share interests of the directors and their connected persons as at 1 January 2011 or, if later, on appointment, and as at 31 December 2011 were as follows:

	1 January 2011	31 December 2011
Mondi Limited[1]		
David Hathorn	558	–
Andrew King	802	208
Imogen Mkhize	4,000	3,222
Total	5,360	3,430
Mondi plc		
Cyril Ramaphosa	7,050	7,050
David Williams	5,000	5,000
David Hathorn	250,437	553,922
Stephen Harris[2]	–	1,000
Andrew King	92,059	138,330
Colin Matthews[2]	5,825	–
Imogen Mkhize	2,000	2,000
John Nicholas	6,000	6,000
Peter Oswald	140,000	133,833
Anne Quinn	11,882	11,882
Total	520,253	859,017

1 On 8 August 2011 a share consolidation was effected based on a consolidation ratio of 0.8054.
2 Stephen Harris was appointed on 1 March 2011. Colin Matthews retired from the Boards on 5 May 2011.

There has been no change in the interests of the directors and their connected persons between 31 December 2011 and the date of this report.

Remuneration report
continued

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 2011.

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]	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 2011	Release date
David Hathorn	BSP	35,156	–	–	35,156	6547	Mar 08	–	Mar 11
	BSP	38,122	–	–	–	2301	Mar 09	38,122	Mar 12
	BSP	37,347	–	–	–	4596	Mar 10	37,347	Mar 13
	BSP	–	29,838	–	–	6206	Mar 11	29,838	Mar 14
	LTIP	95,308	–	63,538	31,770	6547	Mar 08	–	Mar 11
	LTIP	256,070	–	–	–	2301	Mar 09	256,070	Mar 12
	LTIP	105,628	–	–	–	4596	Mar 10	105,628	Mar 13
	LTIP	–	80,749	–	–	6206	Mar 11	80,749	Mar 14
Andrew King	BSP	15,741	–	–	–	2301	Mar 09	15,741	Mar 12
	BSP	15,328	–	–	–	4596	Mar 10	15,328	Mar 13
	BSP	–	13,096	–	–	6206	Mar 11	13,096	Mar 14
	LTIP	90,628	–	–	–	2301	Mar 09	90,628	Mar 12
	LTIP	40,188	–	–	–	4596	Mar 10	40,188	Mar 13
	LTIP	–	29,762	–	–	6206	Mar 11	29,762	Mar 14

[1] For note 1 please refer to the table on page 77.

Mondi plc

	Type of award[1]	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 2011	Release date
David Hathorn	BSP	88,877	–	–	88,877	394	Mar 08	–	Mar 11
	BSP	110,393	–	–	–	129	Mar 09	110,393	Mar 12
	BSP	89,752	–	–	–	374	Mar 10	89,752	Mar 13
	BSP	–	66,689	–	–	543	Mar 11	66,689	Mar 14
	LTIP	240,959	–	160,639	80,320	394	Mar 08	–	Mar 11
	LTIP	735,950	–	–	–	129	Mar 09	735,950	Mar 12
	LTIP	253,844	–	–	–	374	Mar 10	253,844	Mar 13
	LTIP	–	180,479	–	–	543	Mar 11	180,479	Mar 14
	Co-Investment	538,795	–	–	538,795	464	Aug 07	–	Jul 11
Andrew King	BSP	35,026	–	–	35,026	394	Mar 08	–	Mar 11
	BSP	45,582	–	–	–	129	Mar 09	45,582	Mar 12
	BSP	36,835	–	–	–	374	Mar 10	36,835	Mar 13
	BSP	–	29,269	–	–	543	Mar 11	29,269	Mar 14
	LTIP	98,985	–	65,990	32,995	394	Mar 08	–	Mar 11
	LTIP	260,465	–	–	–	129	Mar 09	260,465	Mar 12
	LTIP	96,578	–	–	–	374	Mar 10	96,578	Mar 13
	LTIP	–	69,614	–	–	543	Mar 11	69,614	Mar 14
Peter Oswald	BSP	67,803	–	–	67,803	394	Mar 08	–	Mar 11
	BSP	115,923	–	–	–	129	Mar 09	115,923	Mar 12
	BSP	92,683	–	–	–	374	Mar 10	92,683	Mar 13
	BSP	–	66,504	–	–	543	Mar 11	66,504	Mar 14
	LTIP	186,270	–	124,180	62,090	394	Mar 08	–	Mar 11
	LTIP	662,417	–	–	–	129	Mar 09	662,417	Mar 12
	LTIP	226,055	–	–	–	374	Mar 10	226,055	Mar 13
	LTIP	–	153,991	–	–	543	Mar 11	153,991	Mar 14

[1] The value on award of the BSP awards set out in this table is included in the table of executive directors' remuneration on page 74.
[2] 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	€52,634.42
Andrew King	€14,158.94
Peter Oswald	€28,070.44

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 2011	Exercise period
David Hathorn	15,808	–	–	99	Mar 09	15,808	1 May 14 to 31 Oct 14
Andrew King	15,808	–	–	99	Mar 09	15,808	1 May 14 to 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 the year	Matching shares awarded during the year	Shares released during year	Total shares held as at 31 December 2011
David Hathorn	2,680	279	279	–	3,238
Andrew King	3,124	279	279	–	3,682

[1] Since 1 January 2012 up to the date of this report, David Hathorn has acquired 50 partnership shares and was awarded 50 matching shares. Andrew King acquired 50 partnership shares and was awarded 50 matching shares.

Share awards granted to three most highly paid employees who are not directors of the Group
Share awards granted to the employees whose remuneration is disclosed on page 75 in accordance with the South African governance code (King III) are:

Mondi plc

Type of award	Awards held at beginning of year or on appointment to the Boards	Awards granted during year	Shares lapsed	Awards exercised during year	Weighted average award price basis (GBp)	Dates of award	Awards held as at 31 December 2011	Release date
BSP	276,476	70,353	–	39,953	313	Mar 08 to Mar 11	306,876	Mar 11 to Mar 14
LTIP	1,104,879	194,145	103,483	51,743	268	Mar 08 to Sep 11	1,143,798	Mar 11 to Jan 15

In addition to the number of shares that vested as shown in the table above in respect of the BSP, these employees also received an aggregate cash amount of €16,540.54 of equivalent value to dividends on vested shares over the vesting period, in accordance with the plan rules.

Mondi Limited and Mondi plc share prices
The closing price of a Mondi Limited ordinary share on the JSE Limited as at 31 December 2011 was R57.30 and the range during the period between 1 January 2011 and 31 December 2011 was R50.78 (low) and R71.19 (high).

The closing price of a Mondi plc ordinary share on the London Stock Exchange as at 31 December 2011 was 455.0p and the range during the period between 1 January 2011 and 31 December 2011 was 413.5p (low) to 664.0p (high).

This report was approved by the Boards on 22 February 2012 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 59 days' purchases outstanding at 31 December 2011 (70 days at 31 December 2010), based on the average daily amount invoiced by suppliers.

Share capital

Full details of the Group's share capital can be found in note 28 to the financial statements.

Purchase of own shares

At the annual general meetings held in 2011 shareholders passed a special resolution authorising Mondi plc to repurchase the 50,000 5% cumulative preference shares of £1 each at their nominal value from UBS AG. The repurchase was completed on 11 May 2011. There are no longer any 5% cumulative redeemable preference shares in issue.

Substantial interests

Mondi Limited

Based on the Mondi Limited shareholder register at 31 December 2011, the directors are aware of the following shareholders holding directly 5% or more of the issued share capital of Mondi Limited:

Shareholder	Shares	%
GEPF Equity	13,645,336	11.5

Save as indicated above, the directors have not been advised of and have no certainty whether any of the shareholders could be beneficially interested in 5% or more of the issued share capital of Mondi Limited.

Mondi plc

At 31 December 2011, the Group had received notifications from the following parties in the voting rights of Mondi plc. The number of shares and percentage interests shown are as disclosed at the date on which the holding was notified.

Shareholder	Shares	%
Capital Group International Inc	25,889,498	7.05
Investec Asset Management (Proprietary) Limited	17,789,698	4.84
Allan Gray Unit Trust Management Limited	17,301,819	4.70
AXA S.A.	17,210,471	4.69
Standard Life Investments Limited	16,476,021	4.49
Prudential plc	14,677,702	3.99
Legal & General Assurance (Pensions Management) Limited	14,478,309	3.94
Tarl Investment Holdings Limited	12,987,806	3.54
Sanlam Investment Management (Proprietary) Limited	10,936,128	3.00

The following changes in interests have been notified between 1 January 2012 and the date of this report:

Date	Shareholder	Shares	%
6 January 2012	Prudential plc	–	Below 3
1 February 2012	Capital Group International Inc	25,390,763	6.91

Additional disclosures
continued

Essential contractual arrangements

Certain Group companies are party to the €750 million, five year syndicated revolving multicurrency credit facility agreement which the Boards consider essential to the business of the Group. Ten banks participate equally in the facility, these being: Barclays Capital; BNP Paribas; Citigroup Global Markets Limited; Commerzbank Aktiengesellschaft; Deutsche Bank AG, London Branch; Erste Group Bank AG; Raiffeisen Bank International AG; Société Générale London Branch; The Royal Bank of Scotland plc and Unicredit Bank Austria AG.

Special resolutions of Mondi Limited subsidiaries

In 2011 the shareholders of Mpact Limited (formerly Mondi Packaging South Africa (Proprietary) Limited) passed special resolutions relating to the following matters:

- converting the company from a private to a public company;
- adopting a new memorandum and articles of association in a form that is compliant with schedule 10 of the Listings Requirements of the JSE Limited;
- increasing the company's share capital from 1,000,000 ordinary shares of R0.001 each to 1,500,000 of R0.001 each;
- subdividing each ordinary share of the company into 145 shares of R0.0000068965517240 each;
- converting the authorised and the issued ordinary shares of the company from par value to no par value;
- approving the issuing of 129,503,572 ordinary no par value shares to Mondi Limited and 11,350,154 ordinary no par value shares to Shanduka Packaging (Proprietary) Limited, pursuant to a capitalisation agreement entered into between the parties;
- approving that the directors of the company may authorise the company to provide financial assistance to related or inter-related companies as required under section 45(3)(a)(ii) of the South African Companies Act 2008;
- changing the name of the company from Mondi Packaging South Africa (Proprietary) Limited to Mpact Limited; and
- authorising the company to pay remuneration to its non-executive directors for their services as directors.

Each of the resolutions referred to above were in preparation of Mpact Limited being demerged from Mondi Limited which was completed in July 2011.

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 3 May 2012.

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 2011

Full details of the events occuring after 31 December 2011 can be found in note 41 to the financial statements.

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 177 to 179 of this report.

Annual general meetings

The annual general meeting of Mondi Limited will be held at 12.00 (SA time) on Thursday 3 May 2012 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 3 May 2012 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 Mondi Group website at: www.mondigroup.com.

By order of the Boards

Philip Laubscher	**Carol Hunt**
Company secretary	Company secretary
Mondi Limited	**Mondi plc**
4th Floor, No. 3 Melrose Boulevard	Building 1, 1st Floor
Melrose Arch 2196	Aviator Park
PostNet Suite #444	Station Road
Private Bag X1	Addlestone
Melrose Arch 2076	Surrey
Gauteng	KT15 2PG
Republic of South Africa	UK
Registration No. 1967/013038/06	Registered No. 6209386
22 February 2012	22 February 2012

Contents

Financial statements and shareholder information

FINANCIAL STATEMENTS

SHAREHOLDER INFORMATION

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.

South African and UK company law requires the directors to prepare financial statements for each financial year.
- Under the Companies Act of South Africa, the directors are required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) 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 and loss for the year.
- Under the UK Companies Act 2006, the directors are required to prepare the Group financial statements in accordance with 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 statements 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 and loss of the company for that period.

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

These financial statements have been prepared under supervision of the Group Chief Financial Officer, Andrew King CA (SA), as required by Section 29(1)(e)(ii) of the Companies Act of South Africa 2008.

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 and 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

22 February 2012

Andrew King
Director

22 February 2012

Independent auditors' report to the shareholders 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 2011 which comprise the combined and consolidated statement of financial position as at 31 December 2011, 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, the explanatory notes 1 to 41, the directors' report on pages 28 to 31 and 52 to 55, the audit committee statement on pages 61 to 64, and audited schedules of the report to shareholders by the board on directors' remuneration, included on pages 73 to 78.

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 the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of 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 about 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 fairly, in all material respects, the combined and consolidated financial position of the Mondi Group as at 31 December 2011, 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 the requirements of the Companies Act of South Africa.

Deloitte & Touche
Registered Auditors
Per Bronwyn Kilpatrick
Partner
Sandton
22 February 2012

Building 1, 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 & Legal Services **NB Kader** Tax **L Geeringh** Consulting **L Bam** Corporate Finance **JK Mazzocco** Human Resources **CR Beukman** Finance **TJ Brown** 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 in terms of the Accountancy Profession Sector Code

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 financial statements of Mondi plc for the year ended 31 December 2011 which comprise the combined and consolidated income statement, the combined and consolidated statement of comprehensive income, the combined and consolidated statement of financial position, the combined and consolidated statement of cash flows, the combined and consolidated statement of changes in equity and the related notes 1 to 41. 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 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 and express an opinion on 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 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs 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 Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the Group 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 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 Listing Rules we are required to review:
- the directors' statement, contained within the business review, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review;
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter

We have reported separately on the parent company financial statements of Mondi plc for the year ended 31 December 2011 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
22 February 2012

Combined and consolidated income statement

for the year ended 31 December 2011

€ million	Notes	2011 Before special items	2011 Special items (note 5)	2011 After special items	(Restated) 2010 Before special items	(Restated) 2010 Special items (note 5)	(Restated) 2010 After special items
Continuing operations							
Group revenue	2	**5,739**	**–**	**5,739**	5,610	–	5,610
Materials, energy and consumables used		(2,998)	–	(2,998)	(3,006)	–	(3,006)
Variable selling expenses		(511)	–	(511)	(494)	–	(494)
Gross margin		**2,230**	**–**	**2,230**	2,110	–	2,110
Maintenance and other indirect expenses		(272)	–	(272)	(272)	–	(272)
Personnel costs	4	(808)	(4)	(812)	(829)	(23)	(852)
Other net operating expenses		(186)	(2)	(188)	(211)	50	(161)
Depreciation, amortisation and impairments		(342)	(48)	(390)	(340)	(23)	(363)
Operating profit/(loss)	2;3	**622**	**(54)**	**568**	458	4	462
Non-operating special items	5	–	(1)	(1)	–	(25)	(25)
Net income from associates	16	1	–	1	2	–	2
Total profit/(loss) from operations and associates		**623**	**(55)**	**568**	460	(21)	439
Net finance costs	6	**(111)**	**–**	**(111)**	(106)	–	(106)
Investment income		30	–	30	31	–	31
Foreign currency gains		–	–	–	7	–	7
Finance costs		(141)	–	(141)	(144)	–	(144)
Profit/(loss) before tax		**512**	**(55)**	**457**	354	(21)	333
Tax (charge)/credit	8	(102)	2	(100)	(88)	6	(82)
Profit/(loss) from continuing operations		**410**	**(53)**	**357**	266	(15)	251
Discontinued operation				**43**			34
Profit from discontinued operation	9			14			34
Net gain on distribution of discontinued operation	9			29			–
Profit for the financial year				**400**			285
Attributable to:							
Non-controlling interests				**70**			61
Equity holders of the parent companies				**330**			224
Earnings per share (EPS) for profit attributable to equity holders of the parent companies							
From continuing operations							
Basic EPS (€ cents)	10			**57.5**			37.8
Diluted EPS (€ cents)	10			**56.8**			37.4
Basic underlying EPS (€ cents)	10			**68.1**			40.6
Diluted underlying EPS (€ cents)	10			**67.3**			40.1
From continuing and discontinued operations							
Basic EPS (€ cents)	10			**66.1**			44.1
Diluted EPS (€ cents)	10			**65.3**			43.6
Basic headline EPS (€ cents)	10			**69.9**			47.0
Diluted headline EPS (€ cents)	10			**69.1**			46.5

Combined and consolidated statement of comprehensive income

for the year ended 31 December 2011

€ million	Notes	**2011**	2010
Profit for the financial year		**400**	285
Other comprehensive income:			
Effect of cash flow hedges	27	12	11
Actuarial losses on post-retirement benefit schemes	27	(18)	(15)
Surplus restriction on post-retirement benefit schemes	27	(3)	(3)
Exchange differences on translation of foreign operations	27	(196)	193
Share of other comprehensive income of associates	27	(1)	1
Tax relating to components of other comprehensive income	27	–	4
Other comprehensive income for the financial year, net of tax	27	**(206)**	191
Total comprehensive income for the financial year		**194**	476
Attributable to:			
Non-controlling interests		**43**	75
Equity holders of the parent companies		**151**	401

FINANCIAL STATEMENTS

Combined and consolidated statement of financial position

as at 31 December 2011

€ million	Notes	**2011**	2010
Intangible assets	13	238	312
Property, plant and equipment	14	3,377	3,976
Forestry assets	15	297	320
Investments in associates	16	10	16
Financial asset investments	18	33	34
Deferred tax assets	25	5	21
Retirement benefits surplus	26	8	11
Derivative financial instruments	23	3	3
Total non-current assets		**3,971**	4,693
Inventories	19	637	702
Trade and other receivables	20	829	992
Current tax assets		6	11
Financial asset investments	18	1	–
Cash and cash equivalents		191	83
Derivative financial instruments	23	10	11
Assets held for sale	32	–	1
Total current assets		**1,674**	1,800
Total assets		**5,645**	6,493
Short-term borrowings	22	(286)	(410)
Trade and other payables	21	(891)	(1,034)
Current tax liabilities		(78)	(78)
Provisions	24	(43)	(64)
Derivative financial instruments	23	(8)	(9)
Total current liabilities		**(1,306)**	(1,595)
Medium and long-term borrowings	22	(737)	(1,037)
Retirement benefits obligation	26	(202)	(211)
Deferred tax liabilities	25	(310)	(349)
Provisions	24	(35)	(39)
Derivative financial instruments	23	–	(15)
Other non-current liabilities		(20)	(23)
Total non-current liabilities		**(1,304)**	(1,674)
Total liabilities		**(2,610)**	(3,269)
Net assets		**3,035**	3,224
Equity			
Ordinary share capital and stated capital	28	542	646
Retained earnings and other reserves		2,044	2,117
Total attributable to equity holders of the parent companies		**2,586**	2,763
Non-controlling interests in equity		449	461
Total equity		**3,035**	3,224

The Group's combined and consolidated financial statements, and related notes 1 to 41, were approved by the Boards and authorised for issue on 22 February 2012 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

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

Combined and consolidated statement of cash flows

for the year ended 31 December 2011

€ million	Notes	**2011**	2010
Cash generated from operations	33a	917	778
Dividends from associates	16	2	2
Dividends from other investments		–	1
Income tax paid		(85)	(47)
Net cash generated from operating activities		**834**	734
Cash flows from investing activities			
Investment in property, plant and equipment	2	(263)	(394)
Investment in intangible assets	13	(5)	(4)
Proceeds from the disposal of property, plant and equipment and intangible assets		9	14
Investment in forestry assets	15	(42)	(46)
Investment in financial asset investments	18	(13)	(11)
Proceeds from the sale of financial asset investments		8	3
Acquisition of subsidiaries, net of cash and cash equivalents	30	(12)	–
Acquisition of associates, net of cash and cash equivalents		(2)	(2)
Proceeds from the disposal of subsidiaries, net of cash and cash equivalents	31	17	100
Disposal of discontinued operation's cash and cash equivalents	9	(38)	–
Loan repayments from related parties	18	–	1
Loan (advances to)/repayments from external parties	18	(1)	2
Interest received		9	10
Other investing activities		2	(2)
Net cash used in investing activities		(331)	(329)
Cash flows from financing activities			
Repayment of short-term borrowings	33c	(135)	(51)
Proceeds from medium and long-term borrowings	33c	123	717
Repayment of medium and long-term borrowings	33c	(127)	(831)
Interest paid		(106)	(117)
Dividends paid to non-controlling interests	12	(43)	(18)
Dividends paid to equity holders of the parent companies	12	(126)	(54)
Purchases of treasury shares		(12)	(2)
Non-controlling interests bought out		(1)	(5)
Net realised gain/(loss) on cash and asset management swaps		9	(48)
Other financing activities		(1)	–
Net cash used in financing activities		**(419)**	(409)
Net increase/(decrease) in cash and cash equivalents		**84**	(4)
Cash and cash equivalents at beginning of year[1]		24	37
Cash movement in the year	33c	84	(4)
Effects of changes in foreign exchange rates	33c	9	(9)
Cash and cash equivalents at end of year[1]		**117**	24

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 33b.

Combined and consolidated statement of changes in equity

for the year ended 31 December 2011

€ million	Combined share capital and stated capital[1]	Retained earnings	Other reserves[2]	**Total attributable to equity holders of the parent companies**	Non-controlling interests	**Total equity**
At 1 January 2010	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 28)	–	(2)	–	**(2)**	–	**(2)**
Disposal of businesses (see note 31)	–	–	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**
Dividends paid	–	(126)	–	**(126)**	(43)	**(169)**
Effect of dividend in specie distributed (see note 9)	(104)	(101)	–	**(205)**	–	**(205)**
Total comprehensive income for the year	–	330	(179)	**151**	43	**194**
Issue of shares under employee share schemes	–	12	(12)	**–**	–	**–**
Purchases of treasury shares (see note 28)	–	(12)	–	**(12)**	–	**(12)**
Disposal of treasury shares	–	4	–	**4**	–	**4**
Disposal of discontinued operation (see note 9)	–	–	(5)	**(5)**	(6)	**(11)**
Disposal of businesses (see note 31)	–	–	(1)	**(1)**	–	**(1)**
Non-controlling interests bought out	–	5	–	**5**	(6)	**(1)**
Reclassification	–	13	(13)	**–**	–	**–**
Other	–	–	12	**12**	–	**12**
At 31 December 2011	**542**	**2,041**	**3**	**2,586**	**449**	**3,035**

Notes:

1 In August 2011, Mondi Limited's par value shares were converted by special resolution to shares with no par value. As a result Mondi Limited's share capital and share premium were combined into a stated capital account. The share consolidation described in notes 10 and 28 had no impact on the stated capital and share capital of Mondi Limited and Mondi plc respectively.

2 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	Statutory reserves[2]	Total
At 1 January 2010	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 (see note 31)	–	12	–	–	–	12
Reclassification	1	(1)	–	–	(1)	(1)
At 31 December 2010	17	(31)	(10)	(40)	265	201
Total comprehensive income for the year	–	(171)	8	(16)	–	(179)
Mondi share schemes' charge	12	–	–	–	–	12
Issue of shares under employee share schemes	(12)	–	–	–	–	(12)
Disposal of discontinued operation (see note 9)	–	(5)	–	–	–	(5)
Disposal of businesses (see note 31)	–	(1)	–	–	–	(1)
Reclassification	–	–	–	–	(13)	(13)
At 31 December 2011	**17**	**(208)**	**(2)**	**(56)**	**252**	**3**

Notes:

1 All movements in other reserves are disclosed net of non-controlling interests. The movement in non-controlling interests as a direct result of the movement in other reserves for the year ended 31 December 2011 was a decrease in non-controlling interests related to total comprehensive income for the year of €27 million (2010: increase of €14 million).

2 Statutory reserves consist of the merger reserve of €259 million (2010: €259 million) and other sundry reserves in deficit of €7 million (2010: surplus of €6 million).

Notes to the combined and consolidated financial statements

for the year ended 31 December 2011

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'.

Comparative information has been restated where appropriate to reflect the discontinued operation of Mpact (formerly Mondi Packaging South Africa) as described in note 9.

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.

Subsidiaries

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 subsidiaries drawn up to 31 December each year. All intra-group balances, transactions, income and expenses are eliminated. Subsidiaries 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.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

1 Accounting policies (continued)

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.

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.

1 Accounting policies (continued)

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.

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 to the extent that the asset is a qualifying asset.

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. Residual values and useful lives are reviewed at least annually.

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.

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 10 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.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

1 Accounting policies (continued)

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.

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 in the combined and consolidated income statement. Where the underlying circumstances change such that a previously recognised impairment subsequently reverses, the carrying amount of the asset, or cash-generating unit, is increased to the revised estimate of its recoverable amount. Such 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 and discontinued operations

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 disposed of or are part of a single co-ordinated plan for disposal, or represent a subsidiary acquired exclusively with a view to resale. Once an operation has been identified as discontinued, its net profit or loss is presented separately in the combined and consolidated income statement and related notes. Comparative information is also restated. Information presented in the combined and consolidated statements of financial position and cash flows, including related notes to these statements, is not separated between continuing and discontinued operations.

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.

1 Accounting policies (continued)

Retirement benefits

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

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 costs are 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 an income 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.

The STC regime is being replaced with a new Dividend Tax (DT) regime, effective 1 April 2012, which will constitute a withholding tax imposed at a shareholder level but payable by the Group on behalf of the shareholder. DT will be imposed in respect of any dividend approved by a company on or after 1 April 2012, and will be levied at a rate of 15%. This rate may be reduced under the provisions of certain Double Tax Agreements. In addition, the DT legislation includes a number of exemptions, including an exemption for dividends paid to certain exempt entities.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

1 Accounting policies (continued)

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. The carrying amount is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered. Similarly, it is increased to the extent that it is probable that sufficient taxable profit will be available in the future for all or part of the deferred tax asset to be recovered.

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 in equity, in which case the deferred tax is also taken directly to other comprehensive income and accumulated in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the 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 and loss as the obligation arises.

1 Accounting policies (continued)

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.

Translation of overseas operations

The Group's results are presented in euro, 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 on the dates of the transactions. Exchange differences arising, if any, are recognised directly in other comprehensive income, and accumulated in equity. Such translation differences are reclassified to profit and 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 on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

1 Accounting policies (continued)

Cash and cash equivalents

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

Net debt

Net debt is a non-IFRS measure and consists of short-term, medium and long-term borrowings and 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 are classified as current or non-current depending on the maturity of the derivative.

Changes in the fair value of derivative instruments that are not formally designated in hedge relationships are recognised immediately in the 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.

1 Accounting policies (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivative financial instruments that are designated as hedges of future cash flows are recognised directly in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the 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 and loss on a proportionate basis.

Fair value hedges

For an effective hedge of an exposure to changes in fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in the 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.

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.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

1 Accounting policies (continued)

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.

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 2011

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 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 14 – IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

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:

- 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 12 – Income Taxes
- IAS 24 – Related Party Disclosures
- 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 the following Standards and amendments to published Standards on the Group's results, which will become effective for annual reporting periods beginning on or after 1 January 2013:

- IFRS 9 – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 19 – Employee Benefits
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 28 – Investments in Associates

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 2011 the Group incurred net asset impairment costs of €49 million (2010: €44 million) (see note 14) and goodwill impairment costs of €nil (2010: €nil) (see note 13).

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

1 Accounting policies (continued)

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 2011 the Group recorded a fair value adjustment of €49 million (2010: €36 million). Forestry assets as at 31 December 2011 totalled €297 million (2010: €320 million) (see note 15).

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	**2011**
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 2011 the retirement benefits asset was €8 million (2010: €11 million) and the retirement benefits obligation was €202 million (2010: €211 million) (see note 26).

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 26.

In November 2011 the trustees of the defined benefit pension plan in South Africa, with agreement from the participating pensioners and employees, resolved to wind up the fund subject to regulatory approval. Regulatory approval was received in January 2012. Mondi Limited will receive a reimbursement of the pension surplus of €6 million. A settlement charge of €2 million will be recognised in 2012.

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 pursuit 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. The broad European region is further split by product segments reflecting the management of the Group. In addition the Group manages the Newsprint businesses separately and therefore these have been presented as a separate segment.

2 Operating segments (continued)

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	– Uncoated fine paper
	– Pulp	– Pulp
	– Newsprint	– 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	– Uncoated fine paper
	– Pulp	– Pulp
	– Corrugated products	– Corrugated products
		– Woodchips
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.

Measurement of operating segment revenues, profit and 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).

As more fully described in note 9, the Group separated its interest in Mondi Packaging South Africa through a demerger during the year ended 31 December 2011. The results of the discontinued operation have been excluded from the segment results presented below, other than as a reconciling item between the segments' totals and Group totals where appropriate, for both the years ending 31 December 2011 and 31 December 2010. During the year ended 31 December 2010, the Group disposed of its Merchant business, Europapier. The results of the Merchant business are included in the Newsprint businesses segment up to its date of disposal of 4 November 2010. As this disposal did not meet the definition of a discontinued operation, no restatement of segment results is permitted.

There has been no change in the basis of measurement of segment profit and loss in the financial year.

Notes to the combined and consolidated financial statements

for the year ended 31 December 2011

2 Operating segments (continued)

Operating segment revenue

€ million	2011 Segment revenue	2011 Internal revenue[1]	2011 External revenue[2]	(Restated) 2010 Segment revenue	(Restated) 2010 Internal revenue[1]	(Restated) 2010 External revenue[2]
Europe & International						
Uncoated Fine Paper	1,429	(20)	1,409	1,516	(129)	1,387
Corrugated	1,384	(64)	1,320	1,235	(59)	1,176
Bags & Coatings	2,478	(46)	2,432	2,226	(39)	2,187
Intra-segment elimination	(129)	129	–	(125)	125	–
Total Europe & International	5,162	(1)	5,161	4,852	(102)	4,750
South Africa Division	569	(155)	414	580	(211)	369
Newsprint businesses	164	–	164	492	(1)	491
Segments total	**5,895**	**(156)**	**5,739**	5,924	(314)	5,610
Inter-segment elimination	(156)	156	–	(314)	314	–
Group total	**5,739**	**–**	**5,739**	5,610	–	5,610

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 type of product presented below.

External revenue by product type

€ million	2011	(Restated) 2010
Products		
Corrugated products	1,369	1,212
Uncoated fine paper	1,337	1,351
Kraft paper & industrial bags	1,350	1,170
Coatings & consumer packaging	881	809
Pulp	263	247
Newsprint	251	221
Woodchips	60	76
Merchant	41	373
Other[1]	187	151
Group total	**5,739**	5,610

Note:
1 Revenues derived from product types that are not individually material are classified as other.

2 Operating segments (continued)

External revenue by location of customer

€ million	2011	(Restated) 2010
Revenue		
Africa		
South Africa[1]	303	249
Rest of Africa	268	226
Africa total	571	475
Western Europe		
Germany	810	768
United Kingdom[1]	278	323
Rest of western Europe	1,529	1,474
Western Europe total	2,617	2,565
Emerging Europe	1,144	1,184
Russia	556	491
North America	243	234
South America	30	30
Asia and Australia	578	631
Group total	**5,739**	5,610

Note:
[1] These revenues, which total €581 million (2010: €572 million), are attributable to the countries in which the Group's parent entities are domiciled.

External revenue by location of production

€ million	2011	(Restated) 2010
Revenue		
Africa		
South Africa[1]	617	593
Rest of Africa	10	5
Africa total	627	598
Western Europe		
Austria	1,110	1,161
United Kingdom[1]	147	155
Rest of western Europe	1,090	997
Western Europe total	2,347	2,313
Emerging Europe		
Poland	794	711
Rest of emerging Europe	1,075	1,076
Emerging Europe total	1,869	1,787
Russia	703	617
North America	159	131
Asia and Australia	34	164
Group total	**5,739**	5,610

Note:
[1] These revenues, which total €764 million (2010: €748 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.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

2 Operating segments (continued)

Operating profit from continuing operations before special items

€ million	**2011**	(Restated) 2010
Europe & International		
Uncoated Fine Paper	205	179
Corrugated	178	119
Bags & Coatings	228	133
Total Europe & International	611	431
South Africa Division	62	64
Newsprint businesses	(18)	(4)
Corporate & other businesses	(33)	(33)
Segments total	**622**	458
Special items (see note 5)	(55)	(21)
Net income from associates (see note 16)	1	2
Net finance costs (see note 6)	(111)	(106)
Group profit from continuing operations before tax	**457**	333

Significant components of operating profit from continuing operations 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	**2011**	(Restated) 2010	**2011**	(Restated) 2010
Europe & International				
Uncoated Fine Paper	309	279	104	100
Corrugated	251	187	73	68
Bags & Coatings	327	238	99	105
Total Europe & International	887	704	276	273
South Africa Division	114	117	52	53
Newsprint businesses	(5)	10	13	14
Corporate & other businesses	(32)	(33)	1	–
Group and segments total from continuing operations	**964**	798	**342**	340

	Operating lease charges		Green energy sales and disposal of emissions credits	
€ million	**2011**	(Restated) 2010	**2011**	(Restated) 2010
Europe & International				
Uncoated Fine Paper	7	8	5	6
Corrugated	32	27	43	38
Bags & Coatings	10	9	36	36
Total Europe & International	49	44	84	80
South Africa Division	5	5	–	–
Newsprint businesses	1	6	–	–
Corporate & other businesses	1	2	–	–
Group and segments total from continuing operations	**56**	57	**84**	80

2 Operating segments (continued)

Reconciliation of total profit from operations and associates to EBITDA

€ million	**2011**	(Restated) 2010
Total profit from operations and associates	**568**	439
Special items (excluding associates) (see note 5)	55	21
Depreciation and amortisation	342	340
Share of associates' net income	(1)	(2)
EBITDA	**964**	798

Operating segment assets

	2011		(Restated) 2010	
€ million	**Segment assets[1]**	**Net segment assets**	Segment assets[1]	Net segment assets
Europe & International				
Uncoated Fine Paper	1,473	1,283	1,672	1,512
Corrugated	1,215	967	1,112	898
Bags & Coatings	1,640	1,279	1,731	1,333
Intra-segment elimination	(87)	–	(55)	–
Total Europe & International	4,241	3,529	4,460	3,743
South Africa Division	964	828	1,091	953
Newsprint businesses	94	59	141	106
Corporate & other businesses	6	3	10	7
Inter-segment elimination	(40)	–	(63)	–
Segments total	**5,265**	**4,419**	5,639	4,809
Unallocated:				
Discontinued operation	–	–	507	393
Investments in associates	10	10	16	16
Deferred tax assets/(liabilities)	5	(305)	21	(328)
Other non-operating assets/(liabilities)[2]	140	(291)	193	(336)
Group trading capital employed	**5,420**	**3,833**	6,376	4,554
Financial asset investments	33	33	34	34
Net debt	192	(831)	83	(1,364)
Group assets	**5,645**	**3,035**	6,493	3,224

Notes:

1 Segment assets are operating assets and as at 31 December 2011 consist of property, plant and equipment of €3,377 million (2010: €3,761 million), intangible assets of €238 million (2010: €238 million), forestry assets of €297 million (2010: €320 million), retirement benefits surplus of €8 million (2010: €9 million), inventories of €637 million (2010: €621 million) and operating receivables of €708 million (2010: €690 million).

2 Other non-operating assets consist of derivative assets of €13 million (2010: €14 million), current income tax receivables of €6 million (2010: €11 million), other non-operating receivables of €121 million (2010: €167 million) and assets held for sale of €nil (2010: €1 million). Other non-operating liabilities consist of derivative liabilities of €8 million (2010: €24 million), non-operating provisions of €68 million (2010: €92 million), current income tax liabilities of €78 million (2010: €78 million) and other non-operating payables and deferred income of €277 million (2010: €335 million).

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

2 Operating segments (continued)

Non-current non-financial assets

€ million	2011 Non-current non-financial assets[1]	2011 Segment assets	2011 Net segment assets	(Restated) 2010 Non-current non-financial assets[1]	(Restated) 2010 Segment assets[1]	(Restated) 2010 Net segment assets
Africa						
South Africa[2]	825	974	827	969	1,088	959
Rest of Africa	6	17	16	8	14	13
Africa total	831	991	843	977	1,102	972
Western Europe						
Austria	453	796	576	392	752	667
United Kingdom[2]	68	128	93	80	135	113
Rest of western Europe	398	671	525	434	714	543
Western Europe total	919	1,595	1,194	906	1,601	1,323
Emerging Europe						
Poland	469	594	511	580	702	583
Slovakia	439	490	427	492	547	466
Rest of emerging Europe	342	482	388	392	536	394
Emerging Europe total	1,250	1,566	1,326	1,464	1,785	1,443
Russia	836	957	917	896	1,020	961
North America	57	105	91	56	92	74
Asia and Australia	19	51	48	20	39	36
Segments total	**3,912**	**5,265**	**4,419**	4,319	5,639	4,809

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 €893 million, €1,102 million and €920 million respectively (2010: €1,049 million, €1,223 million and €1,072 million respectively), are attributable to the countries in which the Group's parent entities are domiciled.

Additions to non-current non-financial assets

€ million	Additions to non-current non-financial assets[1] 2011	Additions to non-current non-financial assets[1] (Restated) 2010	Capital expenditure cash payments[2] 2011	Capital expenditure cash payments[2] (Restated) 2010
Europe & International				
Uncoated Fine Paper	51	138	61	151
Corrugated	43	79	44	87
Bags & Coatings	120	102	110	92
Total Europe & International	214	319	215	330
South Africa Division	66	71	27	28
Newsprint businesses	7	10	4	7
Corporate & other businesses	–	–	–	1
Segments total	**287**	400	**246**	366
Unallocated:				
Discontinued operation	18	28	17	28
Group total	**305**	428	**263**	394

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 Operating profit from continuing operations before special items

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

€ million	**2011**	(Restated) 2010
Depreciation of property, plant and equipment	(332)	(331)
Amortisation of intangible assets	(10)	(9)
Operating lease charges (see note 2)	(56)	(57)
Research and development expenditure	(12)	(9)
Restructuring and closure costs (excluding special items)	(1)	–
Net foreign currency (losses)/gains (see note 7)	(4)	6
Green energy sales and disposal of emissions credits (see note 2)	84	80
Fair value gains on forestry assets (see note 15)	49	36
Felling costs (see note 15)	(65)	(65)
Profit on disposal of tangible and intangible assets	–	1

Total revenue from continuing operations, 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 €5,832 million (2010: €5,699 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.

An analysis of auditors' remuneration (from continuing and discontinued operations) is presented as follows:

€ million	**2011**	2010
Fees payable to the auditors for the audit of Mondi Limited's and Mondi plc's annual accounts and the Group consolidation	0.4	0.6
United Kingdom	0.3	0.4
South Africa	0.1	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	2.9	3.5
Total audit fees	**3.3**	4.1
Audit related assurance services	0.2	0.2
Tax services		
– tax advisory	0.1	0.4
– tax compliance	0.4	0.2
Other services	0.1	0.2
Total non-audit fees	**0.8**	1.0
Total fees	**4.1**	5.1

Fees payable to Deloitte & Touche and their associates for non-audit services to Mondi Limited and fees payable to Deloitte LLP and their associates for non-audit services to Mondi plc are not required to be separately disclosed because the combined and consolidated financial statements disclose such fees on a consolidated basis.

4 Employee numbers and costs

The average number of employees from continuing operations, excluding associates' employees and including a proportionate share of employees within joint venture entities, was:

hundreds	**2011**	(Restated) 2010
By business segment		
Europe & International		
Uncoated Fine Paper	85	95
Corrugated	55	60
Bags & Coatings	83	80
Total Europe & International	223	235
South Africa Division	19	19
Newsprint businesses	2	6
Corporate & other businesses	1	1
Group and segments total from continuing operations	**245**	261

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

4 Employee numbers and costs (continued)

The principal locations of employment were:

hundreds	2011	(Restated) 2010
South Africa and rest of Africa	20	21
Western Europe	70	72
Eastern Europe	66	68
Russia	78	87
North America	8	7
Asia and Australia	3	6
Group and segments total from continuing operations	**245**	261

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

€ million	2011	(Restated) 2010
Within operating costs		
Wages and salaries	636	663
Social security costs	144	139
Defined contribution pension plan costs	12	13
Defined benefit pension plan costs (see note 26)	6	7
Share-based payments (see note 29)	10	7
Total within operating costs	**808**	829
Within special items		
Personnel costs relating to restructuring (see note 5)	4	23
Total within special items	**4**	23
Within net finance costs		
Post-retirement medical plan costs (see note 26)	6	6
Defined benefit pension plan costs (see note 26)	6	3
Total within net finance costs	**12**	9
Total from continuing operations	**824**	861

Compensation for the Boards and key management[1;2]

€ million	2011	2010
Salaries and short-term employee benefits	7.2	5.7
Non-executive directors	0.9	0.9
Defined contribution plan payments	0.9	1.0
Defined benefit plan payments	0.2	0.5
Termination payments	0.7	–
Social security	1.2	0.3
Share-based payments	4.6	2.8
Total	**15.7**	11.2

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 39 for further details.

2 The information presented in the table above, in conjunction with the remuneration report, satisfies the disclosure requirements of the South African Companies Act 2008 Section 30(4) to (6) with regard to the remuneration of prescribed officers of the Group.

5 Special items

€ million	2011	(Restated) 2010
Operating special items		
Asset impairments	(48)	(32)
Reversal of asset impairments	–	9
Restructuring and closure costs		
Restructuring and closure costs excluding related personnel costs	(5)	(14)
Personnel costs relating to restructuring	(4)	(24)
Reversal of restructuring and closure costs excluding related personnel costs	3	30
Reversal of personnel costs relating to restructuring	–	1
Gain on acquisition of business (see note 30)	–	34
Total operating special items	**(54)**	4
Non-operating special items		
Loss on disposals (see note 31)	(1)	(11)
Impairments of assets held for sale	–	(14)
Total non-operating special items	**(1)**	(25)
Total special items from continuing operations before tax and non-controlling interests	**(55)**	(21)
Tax (see note 8)	2	6
Non-controlling interests	–	1
Total special items attributable to equity holders of the parent companies	**(53)**	(14)

Special items from continuing operations before tax and non-controlling interests by operating segment

€ million	2011	(Restated) 2010
Europe & International		
Uncoated Fine Paper	2	5
Corrugated	3	(15)
Bags & Coatings	(27)	28
Total Europe & International	(22)	18
South Africa Division	–	(10)
Newsprint businesses	(33)	(29)
Corporate & other businesses	–	–
Group and segments total from continuing operations	**(55)**	(21)

Operating special items

Restructuring activities undertaken in Bags & Coatings resulted in restructuring costs of €5 million and related personnel costs of €4 million being recognised in the coatings & consumer packaging business. In addition, a strategic review of certain assets in the kraft paper business resulted in an asset impairment of €15 million being recognised.

Losses incurred and a weak trading outlook has necessitated the impairment of the Group's share of assets at Aylesford Newsprint amounting to €33 million.

Purchase price adjustments on the sale of businesses in prior years resulted in the reversal of previously recognised restructuring provisions of €2 million in Uncoated Fine Paper and €1 million in Bags & Coatings.

Non-operating special items

Finalisation of the sales of Frohnleiten and the UK corrugated plants resulted in a gain on disposal of €3 million in the Corrugated business.

The sale of Unterland, a flexible packaging business, resulted in a loss on disposal of €4 million in Bags & Coatings.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

6 Net finance costs

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

€ million	**2011**	(Restated) 2010
Investment income		
Interest income		
Bank deposits, loan receivables and other	9	8
Available-for-sale investments	–	–
Total interest income	**9**	8
Dividend income	–	1
Expected return on defined benefit arrangements (see note 26)	21	22
Total investment income	**30**	31
Foreign currency gains		
Foreign currency gains	–	8
Less: foreign currency gains capitalised (see note 14)	–	(1)
Total foreign currency gains (see note 7)	**–**	7
Financing costs		
Interest expense		
Interest on bank overdrafts and loans	(108)	(120)
Interest on obligations under finance leases	–	(1)
Interest on defined benefit arrangements (see note 26)	(33)	(31)
Total interest expense	**(141)**	(152)
Less: interest capitalised (see note 14)	–	8
Total financing costs	**(141)**	(144)
Net finance costs from continuing operations	**(111)**	(106)

There was no interest capitalised for the year ended 31 December 2011. The weighted average interest rate applicable to interest on general borrowings capitalised for the year ended 31 December 2010 was 3.9%.

7 Foreign exchange

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

€ million	**2011**	(Restated) 2010
Net operating foreign currency (losses)/gains (see note 3)	(4)	6
Net financing foreign currency gains[1] (see note 6)	–	7
Net foreign currency (losses)/gains from continuing operations	**(4)**	13

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	2011	(Restated) 2010
UK corporation tax at 26.5% (2010: 28%)	1	(2)
SA corporation tax at 28% (2010: 28%)	7	3
Overseas tax	84	74
Current tax (excluding tax on special items)	**92**	75
Deferred tax in respect of the current period (excluding tax on special items)	22	18
Deferred tax in respect of prior period over provision	(12)	(5)
Total tax charge before special items	**102**	88
Deferred tax on special items	(2)	(6)
Total tax credit on special items (see note 5)	**(2)**	(6)
Total tax charge from continuing operations	**100**	82

(b) Factors affecting tax charge for the year

The Group's effective rate of tax from continuing operations before special items for the year ended 31 December 2011, calculated on profit from continuing operations before tax before special items and including net income from associates, is 20% (2010: 25%).

The Group's total tax charge from continuing operations for the year can be reconciled to the tax on the Group's profit from continuing operations before tax at the weighted average UK and SA corporation tax rate of 26.6% (2010: 28%), as follows:

€ million	2011	(Restated) 2010
Profit from continuing operations before tax	457	333
Tax on profit from continuing operations before tax calculated at the weighted average UK and SA corporation tax rate of 26.6%[1] (2010: 28%)	**121**	93
Tax effect of net income from associates, calculated at 26.6% (2010: 28%)	–	(1)
Tax effects of:		
Tax in Mondi Limited on intercompany interest received from Mpact Limited	**4**	8
Expenses not (taxable)/deductible for tax purposes	**(7)**	(13)
Intangible amortisation and non-qualifying depreciation	(11)	(6)
Special items not deductible/(taxable)	1	(10)
Other non-deductible expenses	3	3
Non-taxable income	**(1)**	(1)
Temporary difference adjustments	**14**	23
Current year tax losses and other temporary differences not recognised	26	30
Prior period tax losses and other temporary differences not previously recognised	(12)	(7)
Other adjustments	**(31)**	(27)
Current tax prior period adjustments	6	8
South African Secondary Tax on Companies	4	2
Tax incentives	(20)	(16)
Effect of differences between local rates and UK and SA rates	(28)	(27)
Other adjustments	7	6
Tax charge from continuing operations for the financial year	**100**	82

Note:
[1] The weighted average tax rate has been determined by weighting the profit from continuing operations before tax after special items of Mondi Limited and its subsidiaries and Mondi plc and its subsidiaries.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

8 Tax charge (continued)

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 from continuing operations. The associates' tax charge included within 'net income from associates' for the year ended 31 December 2011 is €nil (2010: €1 million).

9 Discontinued operation

On 30 June 2011, the Mondi Group shareholders approved a special resolution to separate the Group's interest in Mondi Packaging South Africa (MPSA) via a demerger in terms of which all the ordinary shares in MPSA held by Mondi Limited were distributed to the Mondi Limited ordinary shareholders by way of a dividend in specie. MPSA was listed on 11 July 2011 under a new name, Mpact Limited (Mpact), on the securities exchange operated by the JSE Limited (JSE).

Prior to the demerger (i) Mondi Limited and Shanduka Packaging (Proprietary) Limited (Shanduka Packaging) subscribed for new Mpact shares; (ii) certain shareholder loans made to Mpact were repaid using the cash proceeds received from the new share subscription and newly arranged borrowing facilities of Mpact; and (iii) the Mpact shares held by Mondi Limited's employee share ownership trust were acquired by the Mondi Group. The Mondi Group's shareholding in Mpact increased to 89.55% of the total number of Mpact shares in issue following these steps and Shanduka Packaging's shareholding reduced to 10.45%.

The resulting interest in Mpact held by the Mondi Group was distributed to Mondi Limited shareholders by way of a dividend in specie.

The net result of the demerger on the Group's consolidated net debt position was a reduction of €172 million.

The dividend in specie declared to Mondi Limited shareholders was measured at the fair value of the Mpact shares distributed, which was €205 million. The carrying value of the investment, immediately prior to distribution as a dividend in specie, was €170 million. The resulting net gain on disposal of the business was €29 million, after deducting demerger costs incurred of €6 million. The demerger and disposal of Mpact was completed during July 2011. The gain on disposal was separately recognised as part of the discontinued operation.

Subsequent to the demerger, a consolidation of the Mondi Limited ordinary shares owned by Mondi Limited shareholders, the effect of which was to reduce their proportionate interest in the Mondi Group was undertaken in order to compensate Mondi plc shareholders for the value distributed to Mondi Limited shareholders in terms of the demerger.

The Mondi Limited share consolidation was intended to have, as far as practicable, an equivalent but not necessarily identical economic effect on Mondi plc shareholders as the economic effect that the demerger had on Mondi Limited shareholders.

The total number of new Mondi Limited ordinary shares held by Mondi Limited shareholders after the Mondi Limited share consolidation was determined by reference to the volume weighted average price (VWAP) of Mpact shares traded on the JSE, the VWAP of existing Mondi Limited ordinary shares traded on the JSE and the VWAP of Mondi plc ordinary shares traded on the London Stock Exchange plc (LSE) and JSE, in each case during the applicable VWAP determination period, being the nine business days from 11 July 2011 to 21 July 2011.

The result of the Mondi Limited share consolidation was that the number of Mondi Limited shares in issue reduced from 147 million to 118 million and the total number of Mondi shares in issue reduced from 514 million to 486 million.

9 Discontinued operation (continued)

Mpact paid interest of €13 million (2010: €28 million) to Mondi Limited in respect of intercompany financing provided. This interest is eliminated on consolidation and is thus not taken into consideration in the tables below.

The results of the discontinued operation up to 30 June 2011, which have been included in the condensed combined and consolidated income statement for the year ended 31 December 2011, were as follows:

€ million	**2011**	2010
Revenue	296	618
Expenses	(282)	(579)
Profit before tax	**14**	39
Related tax charge	–	(5)
Profit after tax from discontinued operation	**14**	34
Gain on distribution of discontinued operation	29	–
Related tax charge/(credit)	–	–
Net gain on distribution of discontinued operation	**29**	–
Total profit attributable to discontinued operation	**43**	34
Attributable to:		
Non-controlling interests	**–**	2
Equity holders of the parent companies	**43**	32

Mpact contributed the following cash flows to the Group:

€ million	**2011**	2010
Net cash generated from operating activities	32	69
Net cash used in investing activities	(55)	(29)
Net cash generated from/(used in) financing activities	26	(36)

Earnings per share from the discontinued operation are presented as follows (see note 10):

€ cents per share	**2011**	2010
Profit from discontinued operation for the financial year attributable to equity holders of the parent companies		
Basic EPS	**8.6**	6.3
Diluted EPS	**8.5**	6.2

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

9 Discontinued operation (continued)

Details of the net assets disposed were as follows:

€ million	2011
Net assets disposed:	
Goodwill	63
Other intangible assets	6
Property, plant and equipment	195
Investments in associates	6
Financial asset investments	1
Deferred tax assets	3
Retirement benefits surplus[1]	1
Inventories	73
Trade and other receivables	129
Cash and cash equivalents	38
Short-term borrowings	(15)
Trade and other payables	(109)
Current tax liabilities	(1)
Derivative financial instrument liabilities	(3)
Medium and long-term borrowings	(195)
Retirement benefits obligation[1]	(7)
Deferred tax liabilities	(1)
Other non-current liabilities	(3)
Total net assets disposed	**181**
Cumulative translation adjustment reserve realised	(5)
Non-controlling interests disposed	(6)
Net carrying value of discontinued operation distributed	**170**
Dividend in specie distributed to Mondi Limited shareholders	**205**
Net carrying value of discounted operations distributed	(170)
Fair value gain on discontinued operation distributed	**35**
Transaction costs	(6)
Net fair value gain on discontinued operation distributed	**29**

Note:

[1] The retirement benefits surplus disposed of consists of the fair value of plan asset of €19 million less the pension plans defined benefits obligation of €16 million and a surplus restriction of €2 million. The retirement benefits obligation disposed of consists of the post-retirement medical plans defined benefit obligation of €7 million (see note 26).

10 Earnings per share

(a) From continuing operations

As more fully described in note 9, Mondi Limited's ordinary shares were subject to a share consolidation which was recognised from 1 August 2011, the date on which the new Mondi Limited ordinary shares commenced trading on the JSE.

The share consolidation is the matching action to compensate Mondi plc shareholders for the dividend in specie declared to Mondi Limited shareholders. IFRS requires that the number of shares subject to the consolidation be adjusted from the effective date of the consolidation, hence, for the year under review the effect of the share consolidation is included from 1 August 2011.

€ cents per share	2011	(Restated) 2010
Profit from continuing operations for the financial year attributable to equity holders of the parent companies		
Basic EPS	**57.5**	37.8
Diluted EPS	**56.8**	37.4
Underlying earnings for the financial year[1]		
Basic EPS	**68.1**	40.6
Diluted EPS	**67.3**	40.1

Note:

[1] Underlying EPS excludes the impact of special items.

10 Earnings per share (continued)

The calculation of basic and diluted EPS and basic and diluted underlying EPS from continuing operations is based on the following data:

	Earnings	
€ million	**2011**	(Restated) 2010
Profit for the financial year attributable to equity holders of the parent companies	**330**	224
Profit from discontinued operation (see note 9)	(14)	(39)
Net gain on distribution of discontinued operation (see note 9)	(29)	–
Related tax (see note 9)	–	5
Related non-controlling interests (see note 9)	–	2
Profit from continuing operations for the financial year attributable to equity holders of the parent companies	**287**	192
Special items (see note 5)	55	21
Related tax (see note 5)	(2)	(6)
Related non-controlling interests (see note 5)	–	(1)
Underlying earnings for the financial year[1]	**340**	206

Note:
[1] Underlying earnings excludes the impact of special items.

	Number of shares	
million	**2011**	2010
Basic number of ordinary shares outstanding[1]	**499**	508
Effect of dilutive potential ordinary shares[2]	6	6
Diluted number of ordinary shares outstanding	**505**	514

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, and includes the impact of the share consolidation in 2011.
[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.

(b) From continuing and discontinued operations

€ cents per share	**2011**	2010
Profit for the financial year attributable to equity holders of the parent companies		
Basic EPS	**66.1**	44.1
Diluted EPS	**65.3**	43.6
Headline earnings for the financial year[1]		
Basic EPS	**69.9**	47.0
Diluted EPS	**69.1**	46.5

Note:
[1] 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.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

10 Earnings per share (continued)

The calculation of basic and diluted EPS and basic and diluted headline EPS from continuing and discontinued operations is based on the following data:

	Earnings	
€ million	**2011**	(Restated) 2010
Profit for the financial year attributable to equity holders of the parent companies	**330**	224
Net gain on distribution of discontinued operation (see note 9)	(29)	–
Special items	55	21
Special items: restructuring and closure costs	(6)	(7)
Remeasurements related to the discontinued operation[1]	–	1
Profit on disposal of tangible and intangible assets	–	(1)
Impairments not included in special items	1	6
Related tax	(2)	(4)
Related non-controlling interests	–	(1)
Headline earnings for the financial year	**349**	239

Note:
[1] Remeasurements as defined in Circular 3/2009, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

11 Alternative measure of earnings per share

The directors have elected to present an alternative, non-IFRS measure of earnings per share from continuing operations in order to provide shareholders with a comparison of the continuing operations of the Group as if the demerger and related share consolidation had occurred at the beginning of each period presented. This is deemed appropriate as it is the continuing operations of the Group, after taking the impact of the share consolidation into consideration, which will be the basis of the future performance of the Group. This approach will enable a useful comparison of earnings per share from continuing operations, based on the consolidated shares, for all future periods.

The presentation of such an alternative, non-IFRS measure of earnings per share is classified by the JSE Limited as pro-forma financial information. Refer to pages 160 to 164 for the pro-forma financial information and independent reporting accountants' report thereon.

In addition, the effect of the recapitalisation of Mpact resulted in a repayment of intercompany debt by Mpact to Mondi Limited on 4 and 5 July 2011 of €76 million. These proceeds were used to reduce the Group's net debt. The alternative measure of earnings per share has therefore been adjusted to take the related saving on interest paid into consideration as if the recapitalisation had occurred at the beginning of each period presented.

	Earnings	
€ million	**2011**	(Restated) 2010
Underlying earnings for the financial year[1]	**340**	206
Tax saving by Mondi Limited on intercompany interest received from Mpact[2]	4	8
Saving of interest paid on net debt at 8.6% per annum	3	7
Tax at 28% on saving of interest paid	(1)	(2)
Adjusted earnings for the financial year	**346**	219

Notes:
[1] Underlying earnings excludes the impact of special items.
[2] Had the recapitalisation of Mpact occurred at the beginning of each period presented, Mondi Limited would no longer have received interest on its intercompany loans to Mpact and thus the tax charge on the interest received would not have been incurred.

11 Alternative measure of earnings per share (continued)

The revised weighted average number of shares is determined as follows:

	Number of shares	
million	2011	(Restated) 2010
Basic number of ordinary shares outstanding	**499**	508
Adjustment for Mondi Limited share consolidation[1]	(17)	(28)
Adjusted basic number of ordinary shares outstanding[2]	**482**	480
Effect of dilutive potential ordinary shares[3]	6	5
Diluted number of ordinary shares outstanding after Mondi Limited share consolidation	**488**	485

Notes:

[1] The actual number of shares subject to consolidation was 29 million. The adjustment reflects the impact on the number of shares as if the share consolidation had occurred with effect from 1 January 2011 and takes treasury shares into consideration. In 2011, the adjustment reflects the period up to the date of the share consolidation as the share consolidation is included in the basic number of ordinary shares outstanding from 1 August 2011.

[2] 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.

[3] 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.

Based on the adjusted earnings and weighted average number of shares, the alternative, non-IFRS earnings per share figures for continuing operations would be:

€ cents per share	2011	(Restated) 2010
Earnings per share – alternative measure for the financial year		
Basic EPS – alternative measure	**71.8**	45.6
Diluted EPS – alternative measure	**70.9**	45.2

12 Dividends

The dividend in specie declared to Mondi Limited shareholders on 18 July 2011, as discussed in note 9, was measured at the fair value of the Mpact shares distributed of €205 million. The interim dividend paid and the final dividend proposed for the year ended 31 December 2011 are based on the combined total of the new Mondi Limited ordinary shares in issue after the Mondi Limited share consolidation, and the Mondi plc ordinary shares in issue during the year 31 December 2011.

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

€ million	2011	2010
Final dividend paid (in respect of prior year)	86	36
Interim dividend paid	40	18
Final dividend proposed for the year ended 31 December[1]	**86**	84
Paid to non–controlling interests	43	18

Notes:

[1] The dividend proposed is subject to approval by shareholders at the annual general meetings of Mondi Limited and Mondi plc scheduled for 3 May 2012 and therefore has not been included as a liability in the Group's combined and consolidated statement of financial position.

€ cents per share	2011	2010
Final dividend paid (in respect of prior year)	16.50	7.00
Interim dividend paid	8.25	3.50
Final dividend proposed for the year ended 31 December	**17.75**	16.50

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

13 Intangible assets

2011/€ *million*	Goodwill[1]	Licences and other intangibles[2]	Total
Cost			
At 1 January	559	153	712
Acquired through business combinations (see note 30)	1	4	5
Additions	–	5	5
Disposal of assets	–	(8)	(8)
Disposal of discontinued operation (see note 9)	(83)	(21)	(104)
Disposal of businesses (see note 31)	(4)	–	(4)
Reclassification	20	16	36
Currency movements	(16)	(3)	(19)
At 31 December	**477**	**146**	**623**
Accumulated amortisation and impairments			
At 1 January	285	115	400
Charge for the year	–	10	10
Disposal of assets	–	(8)	(8)
Disposal of discontinued operation (see note 9)	(20)	(15)	(35)
Reclassification	20	10	30
Currency movements	(10)	(2)	(12)
At 31 December	**275**	**110**	**385**
Net book value as at 31 December	**202**	**36**	**238**

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 31)	(1)	(2)	(3)
Reclassification	(9)	44	35
Currency movements	11	6	17
At 31 December	559	153	712
Accumulated amortisation and impairments			
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 31)	–	(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

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 and include insignificant internally generated assets of the same nature.

13 Intangible assets (continued)

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.

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 and reflecting latest industry forecasts and management's expectations based on past experience. 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 7.73% (2010: 6.62%), 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. Maintenance capital expenditure has been assumed at 60%-80% of depreciation in the final cash flow year.

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/decrease in weighted average cost of capital, a 1% increase/decrease in the growth rate applied to expected future cash flows, a 5% increase/decrease in cash flows were performed and these did not give rise to an impairment.

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

€ million	**2011**	2010
Europe & International		
Uncoated Fine Paper	36	37
Kraft Paper	83	83
Industrial Bags	51	52
Coatings & Consumer Packaging	32	36
Total Europe & International	202	208
Discontinued operation	–	66
Total goodwill	**202**	274

FINANCIAL STATEMENTS

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

14 Property, plant and equipment

2011/*€ million*	**Land and buildings**	**Plant and equipment**	**Other**[1]	**Total**
Cost				
At 1 January	1,565	6,330	505	8,400
Acquired through business combinations (see note 30)	1	3	–	4
Additions	8	50	191	249
Disposal of assets	(6)	(56)	(12)	(74)
Disposal of discontinued operation (see note 9)	(24)	(264)	(44)	(332)
Disposal of businesses (see note 31)	(16)	(31)	(3)	(50)
Reclassification	61	61	(204)	(82)
Currency movements	(59)	(299)	(19)	(377)
At 31 December	**1,530**	**5,794**	**414**	**7,738**
Accumulated depreciation and impairments				
At 1 January	613	3,556	255	4,424
Charge for the year	34	296	18	348
Impairments[2]	10	39	–	49
Disposal of assets	(4)	(50)	(10)	(64)
Disposal of discontinued operation (see note 9)	(7)	(113)	(17)	(137)
Disposal of businesses (see note 31)	(2)	(15)	(2)	(19)
Reclassification	–	(69)	(10)	(79)
Currency movements	(13)	(138)	(10)	(161)
At 31 December	**631**	**3,506**	**224**	**4,361**
Net book value as at 31 December	**899**	**2,288**	**190**	**3,377**

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 30)	5	8	1	14
Additions	15	79	270	364
Disposal of assets	(20)	(55)	(12)	(87)
Disposal of businesses (see note 31)	(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 and impairments				
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 31)	(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 €139 million (2010: €190 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 €48 million (2010: €32 million) of asset impairments reflected in special items, €nil (2010: €14 million) of asset impairments as a result of being classified as held for sale reflected in special items, €nil (2010: €1 million) of asset impairments reflected in profit from discontinued operation, and €1 million (2010: €6 million) of other impairments. Impairments reversed consist of €nil (2010: €9 million) of reversals of asset impairments reflected in special items.

14 Property, plant and equipment (continued)

Included in the cost above is €nil of interest (2010: €8 million) and €nil of foreign exchange gains (2010: €1 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 €8 million (2010: €20 million) and €2 million (2010: €3 million) respectively.

The residual values and useful lives were reviewed during the current year and there were no material changes from previous years.

The net book value of land and buildings comprises:

€ million	**2011**	2010
Freehold	893	944
Leasehold – long	–	1
Leasehold – short (less than 50 years)	6	7
Total land and buildings	**899**	952

15 Forestry assets

€ million	**2011**	2010
At 1 January	320	251
Capitalised expenditure	39	44
Acquisition of assets	3	2
Fair value gains[1]	49	36
Felling costs	(65)	(65)
Currency movements	(49)	52
At 31 December	**297**	320

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	**2011**	2010
Mature	166	169
Immature	131	151
Total forestry assets	**297**	320

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.

16 Investments in associates

€ million	**2011**	2010
At 1 January	16	6
Net income from associates	1	2
Dividends received	(2)	(2)
Acquisition of associates	2	8
Disposal of discontinued operation (see note 9)	(6)	–
Other	(1)	2
At 31 December	**10**	16

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

16 Investments in associates (continued)

The Group's total investments in associates comprise:

€ million	**2011**	2010
Equity[1]	10	16
Total investments in associates	**10**	16

Note:
1 As at 31 December 2011, there is €nil of goodwill in respect of associates (2010: €2 million).

The Group's share of the summarised financial information of principal associates, all of which are unlisted, is as follows:

€ million	**2011**	(Restated) 2010
Total non-current assets	9	8
Total current assets	26	33
Total current liabilities	(21)	(20)
Total non-current liabilities	(4)	(5)
Share of associates' net assets[1]	**10**	16
Total revenue	63	17
Total operating costs	(62)	(14)
Income tax expense	–	(1)
Share of associates' profit from continuing operations	**1**	2

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

17 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 as follows:

€ million	**2011**	(Restated) 2010
Total non-current assets	59	111
Total current assets	43	56
Total current liabilities	(57)	(57)
Total non-current liabilities	(40)	(53)
Share of joint venture entities' net assets, proportionately consolidated	**5**	57
Revenue	164	152
Total operating costs	(183)	(162)
Special items	(33)	(1)
Net finance costs	(1)	(2)
Income tax expense	6	9
Share of joint venture entities' loss from continuing operations	**(47)**	(4)

Details of principal joint ventures are set out in note 40.

18 Financial asset investments

2011/*€ million*	**Loans and receivables**	**Available-for-sale investments**	**Total**
At 1 January	20	14	34
Additions	6	7	13
Repayments – other	(1)	–	(1)
Disposal of discontinued operation (see note 9)	(1)	–	(1)
Disposal of assets	–	(8)	(8)
Other	(1)	–	(1)
Currency movements	(2)	–	(2)
At 31 December	**21**	**13**	**34**
Current	1	–	1
Non-current	20	13	33

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 31)	–	(1)	(1)
Other	3	(2)	1
Currency movements	2	–	2
At 31 December	20	14	34
Non-current	20	14	34

The fair values of available-for-sale investments represent the published prices of the securities concerned. Loans and receivables are held at amortised cost. The fair value of loans and receivables approximate the carrying values presented.

19 Inventories

€ million	**2011**	2010
Valued using the first-in-first-out cost formula		
Raw materials and consumables	25	61
Work in progress	6	8
Finished products	27	37
Total valued using the first-in-first-out cost formula	**58**	106
Valued using the weighted average cost formula		
Raw materials and consumables	313	315
Work in progress	54	49
Finished products	212	232
Total valued using the weighted average cost formula	**579**	596
Total inventories	**637**	702
Of which, held at net realisable value	167	101

19 Inventories (continued)

€ million	2011	(Restated) 2010
Combined and consolidated income statement		
From continuing operations		
Write-down of inventories to net realisable value	(15)	(20)
Aggregate reversal of previous write-down of inventories	4	4
Cost of inventories recognised as expense	(2,698)	(2,621)

20 Trade and other receivables

€ million	2011	2010
Trade receivables (a)	734	854
Allowance for doubtful debts (b)	(43)	(51)
Net trade receivables	**691**	803
Other receivables	121	167
Prepayments and accrued income	17	22
Total trade and other receivables	**829**	992

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

(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 38. 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 €50 million (2010: €65 million).

Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling €29 million (2010: €47 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 2011	**21**	**3**	**1**	**4**	**29**
Carrying value as at 31 December 2010	28	7	3	9	47

The Group has not entered into any debt factoring arrangements in which the financial counterparties retain recourse in the event of debtor default.

20 Trade and other receivables (continued)

(b) Movement in the allowance account for bad and doubtful debts

€ million	**2011**	2010
At 1 January	51	61
Increase in allowance recognised in combined and consolidated income statement	7	10
Amounts written off or recovered during the year	(11)	(9)
Disposal of discontinued operation (see note 9)	(2)	–
Disposal of businesses	–	(13)
Currency movements	(2)	2
At 31 December	**43**	51

21 Trade and other payables

€ million	**2011**	2010
Trade payables	460	516
Tax and social security	58	68
Other payables	89	123
Accruals and deferred income	284	327
Total trade and other payables	**891**	1,034

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

22 Borrowings

	2011			2010		
€ million	**Current**	**Non-current**	**Total**	Current	Non-current	Total
Secured						
Bank loans and overdrafts	9	1	10	26	127	153
Obligations under finance leases	2	10	12	4	14	18
Total secured	**11**	**11**	**22**	30	141	171
Unsecured						
Bank loans and overdrafts	253	155	408	363	282	645
Bonds	–	492	492	–	491	491
Other loans	22	79	101	17	123	140
Total unsecured	**275**	**726**	**1,001**	380	896	1,276
Total borrowings	**286**	**737**	**1,023**	410	1,037	1,447

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 38.

22 Borrowings (continued)

Obligations under finance leases

The maturity of obligations under finance leases is:

€ million	2011	2010
Not later than one year	3	4
Later than one year but not later than five years	10	15
Later than five years	–	2
Future value of finance lease liabilities	**13**	21
Future finance charges	(1)	(3)
Present value of finance lease liabilities	**12**	18

The Group does not have any individual finance lease arrangements which are considered material.

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:

€750 million Syndicated Revolving Credit Facility (RCF)
The RCF is a five year multi-currency revolving credit facility which was signed on 14 April 2011. The RCF refinances the €1.55 billion Syndicated Revolving Credit Facility (UKRCF) which was due to mature on 22 June 2012 and which has since been cancelled. Interest is charged on the balance outstanding at market-related rates linked to EURIBOR.

€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 if Mondi fails to maintain at least one investment grade credit rating from either Moody's Investors Service or Standard & Poor's. Mondi currently has investment grade credit ratings from both Standard & Poor's (BBB-, outlook stable) and Moody's Investors Service (Baa3, outlook positive).

€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.

PLN 474 million European Investment Bank Facility (EIBF1)
The EIBF1 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 (Warsaw Interbank Offered Rate).

€100 million European Investment Bank Facility (EIBF2)
The EIBF2 is used to part finance expansionary capital expenditure in Russia. The facility is currently undrawn and is available to be drawn until 28 May 2013. Once drawn, the facility amortises over 12 years with a two year grace period. Interest is charged on the balance outstanding at a market-related rate linked to EURIBOR.

RUB 1.6 billion European Bank for Reconstruction and Development Facility (EBRDF)
The EBRDF is used to part finance expansionary capital expenditure in Russia. The facility has an amortising repayment until 2019 and interest is charged on the balance outstanding at a market-related rate linked to MOSPRIME (Moscow Prime Offered Rate).

In addition to the facilities above, the Group has committed facilities amounting to ZAR1.1 billion in South Africa.

22 Borrowings (continued)

The Group's borrowings as at 31 December are analysed by nature and underlying currency as follows:

2011/*€ million*	Floating rate borrowings	Fixed rate borrowings	Non-interest bearing borrowings	Total carrying value	Fair value
Euro	152	503	–	655	682
South African rand	178	–	–	178	178
Polish zloty	94	–	–	94	94
Russian rouble	39	–	–	39	39
Turkish lira	26	–	–	26	26
Pounds sterling	19	–	–	19	19
Other currencies	3	9	–	12	12
Carrying value	**511**	**512**	**–**	**1,023**	
Fair value	**511**	**539**	**–**		**1,050**

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
Polish zloty	119	–	–	119	119
Turkish lira	13	–	–	13	13
Pounds sterling	13	–	–	13	13
US dollar	–	5	–	5	5
Other currencies	2	6	–	8	8
Carrying value	776	655	16	1,447	
Fair value	777	682	16		1,475

In addition to the above, the Group swaps euro debt into other currencies through the foreign exchange market as disclosed in note 38.

The fair value of the €500 million Eurobond is estimated with reference to the last price quoted in the secondary market and for all other 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 specific assets as collateral against certain borrowings. The fair values of these assets as at 31 December are as follows:

€ million	**2011**	2010
Assets held under finance leases		
Property, plant and equipment	9	20
Assets pledged as collateral for other borrowings		
Property, plant and equipment	21	230
Inventories	5	79
Financial assets	17	166
Other	17	20
Total value of assets pledged as collateral	**69**	515

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

continued

for the year ended 31 December 2011

23 Derivative financial instruments

	2011			2010		
€ million	**Asset**	**Liability**	**Notional amount**	Asset	Liability	Notional amount
Current derivatives						
Held for trading						
Foreign exchange contracts[1]	10	(4)	847	11	(7)	938
Interest rate swaps	–	(2)	100	–	(1)	348
Total held for trading	**10**	**(6)**	**947**	11	(8)	1,286
Cash flow hedges						
Interest rate swaps	–	(2)	100	–	(1)	50
Total cash flow hedges	**–**	**(2)**	**100**	–	(1)	50
Total current derivative financial instruments	**10**	**(8)**	**1,047**	11	(9)	1,336
Non-current derivatives						
Cash flow hedges						
Foreign exchange contracts	3	–	75	3	–	100
Interest rate swaps	–	–	–	–	(15)	245
Total non-current derivative financial instruments	**3**	**–**	**75**	3	(15)	345

Note:

1 Of the €847 million (2010: €938 million) aggregate notional amount presented, €607 million (2010: €782 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 38 provides an overview of the Group's management of financial risks through the selective use of derivative financial instruments and also includes a presentation of the undiscounted future contractual cash flows of the derivative contracts outstanding at the reporting date.

Hedging

Cash flow hedges

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

23 Derivative financial instruments (continued)

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	**2011**	(Restated) 2010
Group revenue	(1)	–
Other net operating expenses	–	(3)
Net finance costs	–	(17)
Included in profit from discontinued operation	–	(1)
Total reclassification adjustments (see note 27)	**(1)**	(21)

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

Held for trading derivatives

€ million	**2011**	2010
Net fair value gains on held for trading derivatives	**7**	17

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.

24 Provisions

2011/*€ million*	**Restoration and environ-mental**	**Restruc-turing costs**	**Long service awards**	**Other**	**Total**
At 1 January	12	33	14	44	103
Charged to combined and consolidated income statement	1	10	1	15	27
Unwinding of discount	–	–	1	–	1
Released to combined and consolidated income statement	–	(2)	–	(3)	(5)
Amounts applied	(2)	(23)	(1)	(18)	(44)
Disposal of businesses (see note 31)	–	–	(1)	–	(1)
Reclassification	–	(1)	–	1	–
Currency movements	–	–	–	(3)	(3)
At 31 December	**11**	**17**	**14**	**36**	**78**

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

24 Provisions (continued)

2010/*€ million*	Restoration and environ-mental	Restruc-turing costs	Long service awards	Other	Total
At 1 January	19	22	14	30	85
Acquired through business combinations (see note 30)	–	2	–	–	2
Charged to combined and consolidated income statement	6	27	1	28	62
Unwinding of discount	–	–	1	–	1
Released to combined and consolidated income statement	(9)	(9)	–	(3)	(21)
Amounts applied	(4)	(10)	(1)	(13)	(28)
Disposal of businesses (see note 31)	–	–	(1)	(2)	(3)
Reclassification	–	1	–	1	2
Currency movements	–	–	–	3	3
At 31 December	12	33	14	44	103

Maturity analysis of total provisions on a discounted basis:

€ million	**2011**	2010
Current	43	64
Non-current	35	39
Total provisions	**78**	103

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, €25 million (2010: €30 million) are due to be incurred within the next 12 months. The residual €11 million (2010: €14 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.

25 Deferred tax

Deferred tax assets

€ million	**2011**	2010
At 1 January	21	29
Charged to combined and consolidated income statement	(4)	(3)
Charged to combined and consolidated statement of comprehensive income	(4)	(1)
Disposal of discontinued operation (see note 9)	(3)	–
Disposal of businesses (see note 31)	–	(4)
Reclassification	(5)	(1)
Currency movements	–	1
At 31 December	**5**	21

25 Deferred tax (continued)

Deferred tax liabilities

€ million	2011	2010
At 1 January	(349)	(316)
Charged to combined and consolidated income statement	(4)	(7)
Charged to combined and consolidated statement of comprehensive income	4	5
Disposal of discontinued operation (see note 9)	1	–
Disposal of businesses (see note 31)	–	7
Reclassification	5	1
Currency movements	33	(39)
At 31 December	**(310)**	(349)

The amount of deferred tax provided in the accounts is presented as follows:

€ million	2011	2010
Deferred tax assets		
Tax losses[1]	4	44
Other temporary differences	1	(23)
Total deferred tax assets	**5**	21
Deferred tax liabilities		
Capital allowances in excess of depreciation	(281)	(321)
Fair value adjustments	(84)	(90)
Tax losses	19	33
Other temporary differences	36	29
Total deferred tax liabilities	**(310)**	(349)

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 from continuing operations charged to the combined and consolidated income statement is presented as follows:

€ million	2011	(Restated) 2010
Capital allowances in excess of depreciation	10	16
Fair value adjustments	(9)	(5)
Tax losses	(10)	(19)
Other temporary differences	1	1
Total charge from continuing operations	**(8)**	(7)

The current expectation regarding the maturity of deferred tax balances is:

€ million	2011	2010
Deferred tax assets		
Recoverable within 12 months	3	9
Recoverable after 12 months	2	12
Total deferred tax assets	**5**	21
Deferred tax liabilities		
Payable within 12 months	(1)	(2)
Payable after 12 months	(309)	(347)
Total deferred tax liabilities	**(310)**	(349)

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

25 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	**2011**	2010
Tax losses – revenue	1,540	1,529
Tax losses – capital	17	16
Other temporary differences	48	16
Total	**1,605**	1,561

Included in unrecognised tax losses, as at 31 December 2011, are losses of €1 million (2010: €1 million) that will expire within one year, €76 million (2010: €28 million) that will expire between one and five years, and €218 million (2010: €223 million) that will expire after five years. A further €1,262 million (2010: €1,293 million) of losses have no expiry date. The losses attributable to Mpact in 2010 were €28 million.

No deferred tax liability is recognised on gross temporary differences of €640 million (2010: €569 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 2011 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 €10 million (2010: €20 million) on ultimate distribution of the unremitted earnings of Mondi Limited to external shareholders should the distribution be approved prior to 1 April 2012. No liability will be crystallised on distributions approved after that date.

26 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, from continuing and discontinued operations, in respect of these plans of €14 million (2010: €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.

In November 2011 the trustees of the defined benefit pension plan in South Africa, with agreement from the participating pensioners and employees, resolved to wind up the fund subject to regulatory approval. Regulatory approval was received in January 2012. Mondi Limited will receive a reimbursement of the pension surplus of €6 million. A settlement charge of €2 million will be recognised in 2012.

The post-retirement medical plans provide health benefits to retired employees and certain of their dependants. Eligibility for cover is dependent upon certain criteria. The majority of these plans are unfunded. The South African plan has been closed to new participants since 1 January 1999.

26 Retirement benefits (continued)

Actuarial assumptions

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

%	2011 Southern Africa	2011 Europe & International	2010 Southern Africa	2010 Europe & International
Defined benefit pension plan				
Average discount rate for plan liabilities	**8.7**	**1.5 – 8.8**	8.4	4.8 – 8.3
Average rate of inflation	**6.6**	**1.8 – 10.0**	5.6	1.9 – 10.0
Average rate of increase in salaries	**7.8**	**1.0 – 10.0**	6.9	2.0 – 10.0
Average rate of increase of pensions in payment	**6.6**	**1.1 – 3.3**	5.6	0.8 – 3.5
Average long-term rate of return on plan assets	**7.7**	**3.8 – 6.2**	7.6	4.0 – 6.6
Post-retirement medical plan				
Average discount rate for plan liabilities	**8.7**	**4.3**	8.4	N/A
Expected average increase of healthcare costs	**8.1**	**4.3**	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	2011 Southern Africa	2011 Europe & International	2010 Southern Africa	2010 Europe & International
Retiring today:				
Males	**15.87 – 20.00**	**12.88 – 22.77**	15.83 – 17.86	17.63 – 22.60
Females	**19.81 – 24.80**	**16.68 – 26.39**	19.76 – 22.21	21.01 – 26.39
Retiring in 20 years:				
Males	**17.27 – 21.60**	**10.07 – 22.69**	19.70 – 20.04	21.00 – 25.10
Females	**21.50 – 26.50**	**14.89 – 25.99**	24.00 – 24.38	24.30 – 28.70

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 unit credit method. The actuaries have updated the valuations to 31 December 2011.

The market value of assets is used to determine the funding level of the plans and is sufficient to cover 105% (2010: 110%) 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 expected contributions to be paid to defined benefit pension plan and post-retirement medical plans during 2012 is €16 million (2011 was €20 million). The aggregate benefit obligation in respect of the unfunded plans as at 31 December 2011 is €183 million (2010: €199 million).

The total loss before 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 2011 is €18 million (2010: €15 million). The cumulative total recognised since 1 January 2004 is a loss of €29 million.

26 Retirement benefits (continued)

Retirement benefits surplus/(obligation)

The amounts recognised in the combined and consolidated statement of financial position are determined as follows:

	2011			2010		
€ million	**Southern Africa**	**Europe & International**	**Total**	Southern Africa	Europe & International	Total
Present value of unfunded obligations	(76)	(107)	(183)	(93)	(106)	(199)
Present value of funded obligations	(142)	(164)	(306)	(185)	(134)	(319)
Present value of pension plan liabilities	**(218)**	**(271)**	**(489)**	(278)	(240)	(518)
Fair value of plan assets	173	148	321	225	124	349
Deficit	**(45)**	**(123)**	**(168)**	(53)	(116)	(169)
Surplus restrictions	(23)	(3)	(26)	(31)	–	(31)
Deficit on pension and post-retirement medical plans	**(68)**	**(126)**	**(194)**	(84)	(116)	(200)
Amounts reported in combined and consolidated statement of financial position						
Assets						
Retirement benefits surplus	**8**	**–**	**8**	9	2	11
Liabilities						
Retirement benefits obligation:						
Defined benefit pension plans[1]	–	(126)	(126)	–	(118)	(118)
Post-retirement medical plans	(76)	–	(76)	(93)	–	(93)
Total retirement benefits obligation	**(76)**	**(126)**	**(202)**	(93)	(118)	(211)

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:

	2011			2010		
€ million	**Pension plans**	**Post-retirement medical plans**	**Total plans**	Pension plans	Post-retirement medical plans	Total Plans
At 1 January	(425)	(93)	(518)	(374)	(60)	(434)
Acquired through business combinations (see note 30)	–	–	–	(6)	–	(6)
Current service cost	(8)	–	(8)	(9)	–	(9)
Past service costs and effects of settlements and curtailments	2	–	2	1	–	1
Interest cost	(27)	(6)	(33)	(27)	(6)	(33)
Actuarial losses	(16)	(13)	(29)	(1)	(20)	(21)
Contributions paid by other members	(1)	(3)	(4)	(1)	–	(1)
Benefits paid	27	8	35	22	5	27
Disposal of discontinued operation (see note 9)	16	7	23	–	–	–
Disposal of businesses (see note 31)	4	–	4	6	–	6
Currency movements	25	14	39	(36)	(12)	(48)
At 31 December	**(403)**	**(86)**	**(489)**	(425)	(93)	(518)

26 Retirement benefits (continued)

The changes in the fair value of plan assets are as follows:

€ million	Fair value of plan assets 2011	Fair value of plan assets 2010
At 1 January	349	282
Acquired through business combinations (see note 30)	–	4
Expected return on plan assets	21	24
Actuarial gains	11	5
Contributions paid by employer	7	6
Contributions paid by other members	4	1
Benefits paid	(21)	(13)
Disposal of discontinued operation (see note 9)	(19)	–
Currency movements	(31)	40
At 31 December	**321**	349

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 2011, the actual return on plan assets in respect of defined benefit pension schemes was a gain of €32 million (2010: gain of €29 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**
2011	**Rate of return (%)**	**Fair value (€ million)**	**Rate of return (%)**	**Fair value (€ million)**	**Fair value (€ million)**
External equity	**–**	–	**7.75**	60	60
Property	**–**	–	**6.92**	5	5
Bonds	**–**	–	**2.87**	76	76
Insurance contracts	**8.23**	113	**4.24**	–	113
Cash	**6.73**	60	**0.50**	–	60
Other	**–**	–	**2.46**	7	7
Fair value of plan assets		**173**		**148**	**321**

	Southern Africa		Europe & International		Total
2010	Rate of return (%)	Fair value (€ million)	Rate of return (%)	Fair value (€ million)	Fair value (€ million)
External equity	10.97	113	7.51	59	172
Property	8.97	19	7.04	3	22
Bonds	7.47	87	4.65	56	143
Cash	5.97	7	–	–	7
Other	–	–	–	5	5
Fair value of plan assets		226		123	349

There are no financial instruments or property owned by the Group which is included in the fair value of plan assets.

Notes to the combined and consolidated financial statements
continued
for the year ended 31 December 2011

26 Retirement benefits (continued)

Combined and consolidated income statement

The amounts from continuing operations recognised in the combined and consolidated income statement are as follows:

€ million	2011 Pension plans	2011 Post-retirement medical plans	2011 Total plans	(Restated) 2010 Pension plans	(Restated) 2010 Post-retirement medical plans	(Restated) 2010 Total Plans
Analysis of the amount charged/(credited) to operating profit						
Current service costs	8	–	8	8	–	8
Other amounts credited to profit and loss (curtailments and settlements)	(2)	–	(2)	(1)	–	(1)
Total within operating costs	**6**	**–**	**6**	7	–	7
Analysis of the amount (credited)/charged to net finance costs on plan liabilities						
Expected return on plan assets[1]	(21)	–	(21)	(22)	–	(22)
Interest costs on plan liabilities[2]	27	6	33	25	6	31
Net charge to net finance costs	**6**	**6**	**12**	3	6	9
Total charge from continuing operations to combined and consolidated income statement	**12**	**6**	**18**	10	6	16

Notes:
1 Included in investment income (see note 6).
2 Included in interest expense (see note 6).

Sensitivity analysis

Assumed 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 aggregate of the current service cost and interest cost	1	(1)
Effect on defined benefit obligation	13	(11)

The Group's defined benefit pension and post-retirement medical arrangements, for the five years ended 31 December 2011, are summarised as follows:

€ million	**2011**	2010	2009	2008	2007
Present value of unfunded obligations	(183)	(199)	(169)	(164)	(198)
Present value of funded obligations	(306)	(319)	(265)	(235)	(280)
Present value of pension plan liabilities	**(489)**	(518)	(434)	(399)	(478)
Fair value of plan assets	321	349	282	235	323
Deficit	**(168)**	(169)	(152)	(164)	(155)
Surplus restrictions	(26)	(31)	(24)	(18)	(34)
Deficit on pension and post-retirement medical plans	**(194)**	(200)	(176)	(182)	(189)

26 Retirement benefits (continued)

€ million	**2011**	2010	2009	2008	2007
Assets					
Defined benefit plans in surplus	**8**	11	8	–	11
Liabilities					
Defined benefit plans in deficit (funded and unfunded)	(126)	(118)	(124)	(132)	(129)
Post-retirement medical plans	(76)	(93)	(60)	(50)	(71)
Total liabilities	**(202)**	(211)	(184)	(182)	(200)
Experience adjustments					
On plan liabilities	2	(33)	(1)	(17)	3
On plan assets	25	51	21	(34)	4
Total experience adjustments	**27**	18	20	(51)	7

27 Other comprehensive income

	2011			2010		
€ million	**Before tax amount**	**Tax benefit/ (expense)**	**Net of tax amount**	Before tax amount	Tax expense	Net of tax amount
Cash flow hedges:	12	(4)	8	11	(2)	9
Fair value gains/(losses) arising during the year	11			(10)		
Less: Reclassification adjustments for losses included in combined and consolidated income statement	1			21		
Actuarial losses and surplus restriction on post-retirement benefit schemes:	(21)	4	(17)	(18)	6	(12)
Actuarial losses arising during the year	(18)			(15)		
Surplus restriction arising during the year	(3)			(3)		
Exchange differences on translation of foreign operations	(196)	–	(196)	193	–	193
Share of other comprehensive income of associates[1]	(1)	–	(1)	1	–	1
Total other comprehensive income	**(206)**	**–**	**(206)**	187	4	191
Attributable to:						
Non-controlling interests	**(27)**	**–**	**(27)**	14	–	14
Equity holders of the parent companies	**(179)**	**–**	**(179)**	173	4	177

Note:
[1] Share of other comprehensive income of associates consists of associates' share of exchange differences on translation of foreign operations.

28 Share capital and stated capital

As part of the Mpact demerger, as more fully described in note 9, the following actions, which directly impacted on the Group's share capital and share premium, were undertaken during the year ended 31 December 2011:

- In order to facilitate the share consolidation of Mondi Limited, all Mondi Limited's authorised and issued share capital was converted from par value shares to shares with no par value prior to the share consolidation, in compliance with the South African Companies Act 2008 which came into effect on 1 May 2011. As a result, both the amounts of Mondi Limited's share capital and share premium were converted to stated capital.
- Mondi Limited's ordinary shares were subject to a share consolidation which was recognised from 1 August 2011, the date on which the new Mondi Limited ordinary shares commenced trading on the JSE. The share consolidation is the matching action to compensate Mondi plc shareholders for the dividend in specie declared to Mondi Limited shareholders.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

28 Share capital and stated capital (continued)

- In response to the Mondi Limited share consolidation, Mondi plc's special converting shares were split into 146,896,322 €0.0389 deferred shares and 146,896,322 €0.1611 special converting shares. The new special converting shares were subsequently consolidated to 118,312,975 €0.20 special converting shares in order to equal the number of Mondi Limited ordinary shares in issue after the consolidation was effected.
- The dividend in specie distributed to Mondi Limited shareholders was partially apportioned to the stated capital of Mondi Limited, resulting in a reduction of stated capital from €543 million to €439 million.

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

In accordance with the UK Companies Act 2006, Mondi plc changed its Articles of Association on 6 May 2010 to remove the limit on the number of shares which can be issued. Immediately prior to this date, Mondi plc had authorised share capital of 3,177,608,605 €0.20 ordinary shares and 250,000,000 €0.20 special converting shares.

		Called up, allotted and fully paid/€ million		
2011	**Number of shares**	**Share capital**	**Stated capital**	**Total**
Mondi Limited ordinary shares with no par value issued on the JSE	118,312,975	–	431	431
Mondi plc €0.20 ordinary shares issued on the LSE	367,240,805	74	–	74
Total ordinary shares in issue	**485,553,780**	**74**	**431**	**505**
Mondi Limited special converting shares with no par value	367,240,805	–	8	8
Mondi plc €0.20 special converting shares	118,312,975	24	–	24
Total special converting shares[1]	**485,553,780**	**24**	**8**	**32**
Mondi plc €0.04 deferred shares[2]	146,896,322	5	–	5
Total shares	**1,118,003,882**	**103**	**439**	**542**

		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 €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[1]	514,137,127	37	–	37
Total shares	1,028,274,254	114	532	646

Notes:

[1] The special converting shares are held in trust and do not carry dividend rights. The special converting shares provide a mechanism for equality of treatment on termination of the DLC arrangement for both Mondi Limited and Mondi plc ordinary equity holders.

[2] The deferred shares resulted from the Mpact demerger. They are held in trust and do not carry any dividend or voting rights.

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 29). 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 2011 was 761,462 shares (2010: 338,267) at an average price of R60.01 per share (2010: R53.40 per share). The number of ordinary shares held by the Mondi Employee Share Trust as at 31 December 2011 was 2,991,811 shares (2010: 4,102,373) at an average price of £4.20 per share (2010: £4.03 per share).

29 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 was 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 obligation to settle the awards made under these schemes in cash. Dividends foregone on Bonus Share Plan share awards are paid in cash upon vesting.

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	**2011**	2010
Bonus Share Plan (BSP)	6	5
Long-Term Incentive Plan (LTIP)	6	2
Co-Investment Plan[1]	–	1
Total share-based payment expense	**12**	8
Attributable to:		
Continuing operations	10	7
Discontinued operations	2	1

Note:
[1] The Co-Investment Plan share award scheme concluded on 5 July 2011.

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 2009**	**BSP 2010**	**BSP 2011**
Date of grant	27 March 2009	29 March 2010	25 March 2011
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (R)	18.87	53.06	63.70

Mondi Limited	**LTIP 2009**	**LTIP 2010**	**LTIP 2011**
Date of grant	27 March 2009	29 March 2010	25 March 2011
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
ROCE component	84	100	100
TSR component	100	25	25
Grant date fair value per instrument (R)	19.26		
ROCE component		50.51	56.09
TSR component[1]		12.63	14.02

Mondi plc	**BSP 2009**	**BSP 2010**	**BSP 2011**
Date of grant	27 March 2009	29 March 2010	25 March 2011
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (£)	0.98	4.68	5.82

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

29 Share-based payments (continued)

Mondi plc	LTIP 2009	LTIP 2010	LTIP 2011
Date of grant	27 March 2009	29 March 2010	25 March 2011
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
ROCE component	84	100	100
TSR component	100	25	25
Grant date fair value per instrument (£)	0.99		
ROCE component		4.43	5.09
TSR component[1]		1.11	1.27

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				
2011/Scheme	**1 January**	**Shares conditionally awarded**	**Shares vested**	**Shares lapsed**	**31 December**
BSP	1,121,556	233,074	(673,399)	(5,273)	675,958
LTIP	1,008,538	200,663	(40,761)	(107,157)	1,061,283
Total	**2,130,094**	**433,737**	**(714,160)**	**(112,430)**	**1,737,241**

	Mondi Limited				
2010/Scheme	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	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 plc				
2011/Scheme	**1 January**	**Shares conditionally awarded**	**Shares vested**	**Shares lapsed**	**31 December**
BSP	3,640,012	823,494	(1,093,096)	(36,615)	3,333,795
LTIP	7,139,779	1,031,234	(459,257)	(1,124,735)	6,587,021
Co-Investment Plan	538,795	–	(538,795)	–	–
Total	**11,318,586**	**1,854,728**	**(2,091,148)**	**(1,161,350)**	**9,920,816**

29 Share-based payments (continued)

	Mondi plc				
2010/Scheme	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	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

Combined share award schemes

2011	**1 January**	**Shares conditionally awarded**	**Shares vested**	**Shares lapsed**	**31 December**
Mondi Limited	2,130,094	433,737	(714,160)	(112,430)	1,737,241
Mondi plc	11,318,586	1,854,728	(2,091,148)	(1,161,350)	9,920,816
Total	**13,448,680**	**2,288,465**	**(2,805,308)**	**(1,273,780)**	**11,658,057**

2010	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	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

30 Business combinations

To 31 December 2011

There were no major acquisitions made for the year ended 31 December 2011.

Details of the aggregate net assets acquired, from acquisitions that were not individually material, as adjusted from book to fair value, are presented as follows:

€ million	**Book value**	**Revaluation**	**Fair value**
Net assets acquired:[1]			
Intangible assets	1	4	5
Property, plant and equipment	12	(8)	4
Inventories	5	–	5
Trade and other receivables	9	–	9
Trade and other payables	(6)	–	(6)
Short-term borrowings	(4)	–	(4)
Medium and long-term borrowings	(1)	–	(1)
Net assets acquired	**16**	**(4)**	**12**
Goodwill arising on acquisition			1
Total cost of acquisition			**13**
Debt consideration			(1)
Net cash paid per combined and consolidated statement of cash flows			**12**

Note:
[1] The business combinations were not individually material and therefore have not been shown separately.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

30 Business combinations (continued)

The fair value accounting reflected in these results is provisional in nature. The nature of these businesses is such that adjustments to the carrying values of acquired assets and/or liabilities, and to the goodwill arising on acquisition, are possible as the detail of each acquired business is evaluated post acquisition. If necessary, these adjustments will be made within 12 months of the acquisition date.

During the year to 31 December 2011 no adjustments were made to the provisional values estimated of net assets acquired in the year to 31 December 2010.

For trade and other receivables, the gross contractual amounts receivable and the best estimate at the acquisition date of the contractual cash flows not expected to be collected approximate the book value and the revaluation amount respectively as presented.

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 were subject to restructuring activities. As a result of this and the cash in the business on date of acquisition, a gain on acquisition was recognised in special items 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 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)
Net cash received in respect of acquisitions			**(14)**
Payment of deferred acquisition consideration in respect of acquisitions made in prior years			14
Net cash paid per combined and consolidated statement of cash flows			**–**

31 Disposal of subsidiaries and associates

To 31 December 2011

The discontinued operation and associated demerger of Mpact is disclosed in note 9.

On 28 July 2011, Mondi signed an agreement with Sun European Partners for the sale of 100% of the shares in Unterland Flexible Packaging GmbH, which specialises in the production of polyethylene and polypropylene films. The loss on disposal of the business of €4 million was recognised in special items in the combined and consolidated income statement. The transaction was concluded on 1 October 2011.

Details of the aggregate net assets disposed, excluding the discontinued operation, are presented as follows:

€ million	**2011**
Net assets disposed:[1]	
Goodwill	4
Property, plant and equipment	31
Inventories	16
Trade and other receivables	16
Cash and cash equivalents	1
Short-term borrowings	(30)
Trade and other payables	(12)
Provisions	(1)
Retirement benefits obligation	(4)
Long-term borrowings	(12)
Total net assets disposed	**9**
Loss on disposal of subsidiaries (see note 5)	(1)
Cumulative translation adjustment reserve realised	(1)
Disposal proceeds	**7**
Deferred consideration received in respect of prior years	10
Net cash inflow from disposal of subsidiaries during the year	**17**

Note:
[1] The disposals were not individually material and therefore have not been shown separately.

Notes to the combined and consolidated financial statements
continued
for the year ended 31 December 2011

31 Disposal of subsidiaries and associates (continued)

To 31 December 2010

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, was 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 was recognised in special items in the combined and consolidated income statement. The transaction was concluded on 31 December 2010.

€ million	2010
Net assets disposed:	
Goodwill	1
Property, plant and equipment	81
Deferred tax assets	4
Financial asset investments	1
Inventories	80
Trade and other receivables	170
Cash and cash equivalents	14
Assets held for sale[1]	37
Short-term borrowings	(45)
Trade and other payables	(130)
Current tax liabilities	(2)
Provisions	(3)
Retirement benefits obligation	(6)
Deferred tax liabilities	(7)
Long-term borrowings	(52)
Liabilities directly associated with assets classified as held for sale[1]	(10)
Total net assets disposed	133
Loss on disposal of subsidiaries (see note 5)	(11)
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
Net overdrafts disposed[2]	8
Deferred consideration	(18)
Net cash inflow from disposal of subsidiaries during the year	100

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.

32 Disposal groups and assets held for sale

There were no disposal groups or assets held for sale as at 31 December 2011. Details of the aggregate disposal groups and assets held for sale are presented as follows:

€ million	**2011**	2010
Property, plant and equipment	**–**	1

33 Consolidated cash flow analysis

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

€ million	**2011**	(Restated) 2010
Profit from continuing operations before tax	**457**	333
Depreciation and amortisation	342	340
Share-based payments	10	7
Non-cash effect of special items	36	11
Net finance costs	111	105
Net income from associates	(1)	(2)
Decrease in provisions and post-employment benefits	(25)	(3)
Increase in inventories	(55)	(102)
Increase in operating receivables	(32)	(127)
Increase in operating payables	19	119
Fair value gains on forestry assets	(49)	(36)
Felling costs	65	65
Profit on disposal of tangible and intangible assets	–	(1)
Other adjustments	5	(4)
Cash generated from continuing operations	**883**	705
Cash generated from discontinued operation	34	73
Cash generated from operations	**917**	778

(b) Cash and cash equivalents

€ million	**2011**	2010
Cash and cash equivalents per combined and consolidated statement of financial position	191	83
Bank overdrafts included in short-term borrowings (see note 33c)	(74)	(59)
Net cash and cash equivalents per combined and consolidated statement of cash flows	**117**	24

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

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

33 Consolidated cash flow analysis (continued)

(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	Current financial asset investments	Total net debt
At 1 January 2010	37	(133)	(1,421)	–	(1,517)
Cash flow	(4)	51	114	–	161
Business combinations (see note 30)	–	(1)	–	–	(1)
Disposal of businesses (see note 31)	–	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)
Cash flow	84	135	4	1	224
Business combinations (see note 30)	–	(4)	(1)	–	(5)
Disposal of discontinued operation (see note 9)	–	15	195	–	210
Disposal of businesses (see note 31)	–	30	12	–	42
Movement in unamortised loan costs	–	–	(6)	–	(6)
Reclassification	–	(64)	64	–	–
Currency movements	9	27	32	–	68
At 31 December 2011	**117**	**(212)**	**(737)**	**1**	**(831)**

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 2011, short-term borrowings in the combined and consolidated statement of financial position of €286 million (2010: €410 million) include €74 million of overdrafts (2010: €59 million).

For both years presented, there were no net debt amounts included in disposal groups.

34 Capital commitments

€ million	**2011**	2010
Contracted for but not provided	**140**	98
Approved, not yet contracted for	**372**	316

These capital commitments relate to the following categories of non-current non-financial assets:

€ million	**2011**	2010
Intangible assets	13	7
Property, plant and equipment	499	407
Total capital commitments	**512**	414

34 Capital commitments (continued)

The expected maturity of these capital commitments is:

€ million	**2011**	2010
Within one year	339	296
One to two years	141	77
Two to five years	32	39
After five years	–	2
Total capital commitments	**512**	414

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. These capital commitments will be financed by existing cash resources and borrowing facilities.

Capital commitments related to joint venture entities are immaterial.

35 Contingent liabilities and contingent assets

Contingent liabilities comprise aggregate amounts as at 31 December 2011 of €17 million (2010: €20 million) in respect of loans and guarantees given to banks and other third parties. No acquired contingent liabilities have been recorded in the Group's combined and consolidated statement of financial position for both years presented (see note 30).

There are a number of legal and tax claims against the Group. Provision is made for all liabilities that are expected to materialise.

There were no contingent assets at 31 December 2011 or 31 December 2010.

Contingent assets and liabilities related to joint venture entities are immaterial.

36 Operating leases

Lease agreements

The principal operating lease agreements in place include the following:

Polish plant lease

The heat and power plant lease agreement was entered into by the Group on 29 April 2002 for a total term of 20 years. The lease is renewable by the lessee 18 months prior to the end of the initial lease term. Rental escalates on an annual basis by 1.9%. An option to purchase the plant during the lease term is included in the lease agreement. The lease does not contain any clauses with regard to contingent rent and does not impose any significant restrictions on the lessee.

Russian forestry leases

The forestry lease agreements were entered into by the Group on 1 November 2007 for a total term of 47 years and on 30 June 2008 for a total term of 49 years. The leases are not renewable. Rental escalates on an annual basis by CPI of the local jurisdiction. The leases do not contain any clauses with regard to contingent rent or options to purchase the forestry assets at the end of the lease term, and do not impose any significant restrictions on the lessee.

South African land lease

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 (2010: €1 million). The lease does not contain any clauses with regard to contingent rent or an option to purchase the land at the end of the lease term, and does not impose any significant restrictions on the lessee. There are 59 years remaining on the lease. The operating lease commitments of this lease are not included in the table below.

36 Operating leases (continued)

As at 31 December, the Group had the following outstanding commitments under non-cancellable operating leases:

	2011		2010	
€ million	**Forestry assets**	**Land, buildings and other assets**	Forestry assets	Land, buildings and other assets
Expiry date				
Within one year	5	48	6	51
One to two years	5	37	11	49
Two to five years	16	73	16	128
After five years	99	66	118	94
Total operating leases	**125**	**224**	151	322

37 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 33), excluding loans to joint ventures, less financial asset investments.

€ million	**2011**	2010
Total borrowings and current financial asset investments (see note 33c)	948	1,388
Less: Cash and cash equivalents[1] (see note 33c)	(117)	(24)
Net debt (see note 33c)	**831**	1,364
Less: Non-current financial asset investments		
Loans and receivables (see note 18)	(20)	(20)
Available-for-sale investments (see note 18)	(13)	(14)
Adjusted net debt	**798**	1,330
Equity	**3,035**	3,224
Total capital employed	**3,833**	4,554

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.

%	**2011**	2010
Gearing	**21.5**	29.7
Return on capital employed	**15.0**	12.3

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 optimally manage its capital structure. 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.

38 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.

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.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

38 Financial risk management (continued)

Net monetary foreign currency exposures by functional currency zone

2011/€ *million*	Net monetary foreign currency exposures – assets/(liabilities)[1]							
	USD	EUR	PLN	GBP	SEK	NOK	CHF	Other
Functional currency zones:[2]								
US dollar	–	(1)	–	–	–	–	–	–
South African rand	(3)	–	–	–	–	–	–	–
Euro	3	–	–	3	–	–	2	2
Russian rouble	2	9	–	–	–	–	–	–
Polish zloty	(1)	6	–	–	1	–	–	1
Pounds sterling	3	4	–	–	1	–	–	2
Swedish krona	1	(1)	–	–	–	–	–	–
Hungarian forint	–	2	–	–	–	–	–	–
Turkish lira	(3)	(12)	–	–	–	–	–	–
Czech koruna	2	(13)	–	–	–	–	–	–
Other	3	1	–	–	–	–	–	–

2010/€ *million*	Net monetary foreign currency exposures – assets/(liabilities)[1]							
	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)	–	–	–	–	–	–

Notes:
1 Presented in euro 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.

2011/€ *million*	Income/(expense)	
	+5%	-5%
Functional currency zones:		
Euro	(1)	1
Russian rouble	(1)	1
Pounds sterling	(1)	1
Czech koruna	1	(1)
Turkish lira	1	(1)

38 Financial risk management (continued)

2010/€ *million*	Income/(expense) +5%	-5%
Functional currency zones:		
Turkish lira	2	(2)
Other	1	(1)

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 (2010: €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 euro (see note 22). 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

continued

for the year ended 31 December 2011

38 Financial risk management (continued)

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

	Interest rate risk exposures and sensitivities							
2011/*€ million*	EUR	ZAR	PLN	RUB	TRY	GBP	Other	Total
Total debt	**655**	**178**	**94**	**39**	**26**	**19**	**12**	**1,023**
Less:								
Fixed rate debt	(503)	–	–	–	–	–	(9)	(512)
Cash and cash equivalents	(122)	(11)	(2)	(7)	(3)	(4)	(42)	(191)
Net variable rate debt	**30**	**167**	**92**	**32**	**23**	**15**	**(39)**	**320**
Interest rate swaps:								
Floating-to-fixed notionals	(200)	–	–	–	–	–	–	(200)
Net variable rate exposure	**(170)**	**167**	**92**	**32**	**23**	**15**	**(39)**	**120**
+/- basis points change								
Potential impact on earnings								
(+50 basis points)	1	(1)	–	–	–	–	–	–
Potential impact on earnings								
(-50 basis points)	(1)	1	–	–	–	–	–	–

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 €nil for the year ended 31 December 2011.

	Interest rate risk exposures and sensitivities							
2010/*€ million*	EUR	ZAR	PLN	TRY	GBP	USD	Other	Total
Total debt	907	382	119	13	13	5	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)	(1)	(2)	(3)	(19)	(83)
Net variable rate debt	230	343	117	12	11	(3)	(17)	693
Interest rate swaps:								
Floating-to-fixed notionals	(250)	(45)	–	–	–	–	–	(295)
Net variable rate exposure	(20)	298	117	12	11	(3)	(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.

38 Financial risk management (continued)

In addition to the above, the Group swaps euro debt into/(out of) 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/(out of) and the amounts as at 31 December were as follows:

€ million	**2011**	2010
Long-dated contracts with tenures of more than 12 months		
Russian rouble	84	203
Short-dated contracts with tenures of less than 12 months		
Russian rouble	110	123
Czech koruna	80	139
US dollar	69	74
Pounds sterling	52	75
Swedish krona	16	96
Polish zloty	(36)	142
Other	28	75
Total swapped	**403**	927

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 Shanduka Newsprint.

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 €734 million (2010: €854 million) included in trade and other receivables reported in the combined and consolidated statement of financial position (see note 20), credit insurance covering €577 million (2010: €526 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. In addition, the Group is in possession of bank guarantees and letters of credit securing trade and other receivables to the value of €14 million (2010: €24 million).

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

38 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	**2011**	2010
Expiry date		
In one year or less	38	44
In more than one year	851	1,437
Total credit available	**889**	1,481

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.

Maturity profile of outstanding financial liabilities

2011/*€ million*	**< 1 year**	**1-2 years**	**2-5 years**	**5+ years**	**Total**[1]
Bank loans and overdrafts	262	24	72	60	418
Bonds	–	–	–	492	492
Other borrowings	21	18	53	9	101
Finance leases	3	1	8	–	12
Total borrowings	**286**	**43**	**133**	**561**	**1,023**
Interest on borrowings	33	40	103	46	222
Trade and other payables (excluding tax and social security) (see note 21)	833	–	–	–	833
Total undiscounted cash flows	**1,152**	**83**	**236**	**607**	**2,078**

38 Financial risk management (continued)

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 21)	966	–	–	–	966
Total undiscounted cash flows	1,452	258	362	666	2,738

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

2011/*€ million*	**< 1 year**	**1-2 years**	**2-5 years**	**Total[1]**
Foreign exchange contracts	7	–	2	9
Interest rate swaps	(4)	–	–	(4)
Discounted cash profile of derivatives	**3**	**–**	**2**	**5**
Discounting and interest	(3)	(2)	(9)	(14)
Total undiscounted cash flows	**–**	**(2)**	**(7)**	**(9)**

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)

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.

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.

Notes to the combined and consolidated financial statements

continued

for the year ended 31 December 2011

38 Financial risk management (continued)

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.

39 Related party transactions

The Group has a related party relationship with its associates and joint ventures (see note 40). 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 comprise 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.

2011/*€ million*	**Joint ventures**	**Associates**
Sales to related parties	–	8
Purchases from related parties	–	1
Dividends received	–	2
Loans to related parties	20	–
Receivables due from related parties	4	–

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	–

Cyril Ramaphosa, joint chairman of Mondi, has a 29.6% (2010: 33.1%) 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:

€ million	**2011**	2010
Purchases from Shanduka Group	12.1	18.8
Shareholders' loan due to Shanduka Group	8.8	29.4
Payables due to Shanduka Group	0.8	0.7

Details of the transactions between the Group and its pension and post-retirement medical plans are disclosed in note 26.

40 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.

	Country of incorporation	Business	Percentage equity owned[1] 2011	2010
Subsidiaries				
Mondi SCP a.s.	Slovakia	Uncoated fine paper	51	51
Mondi AG	Austria	Corrugated and uncoated fine paper	100	100
Mondi Corrugated Holding Österreich GmbH	Austria	Corrugated packaging	100	100
Mondi Świecie S.A.	Poland	Virgin containerboard	66	66
Mondi Tire Kutsan Kağit Ve Ambalaj Sanayi Anonim Şirketi	Turkey	Corrugated packaging	63.4	63.4
Mondi Syktyvkar OJSC	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[2]				
Aylesford Newsprint Holdings Limited	UK	Newsprint	50	50
Mondi Shanduka Newsprint[3]	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 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.
3 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.

41 Events occurring after 31 December 2011

In November 2011 the trustees of the defined benefit pension plan in South Africa, with agreement from the participating pensioners and employees, resolved to wind up the fund subject to regulatory approval. Regulatory approval was received in January 2012. Mondi Limited will receive a reimbursement of the pension surplus of €6 million. A settlement charge of €2 million will be recognised in 2012.

In February 2011, Mondi Świecie announced its intention to exercise an option to acquire the power and heat generating plant which supplies Mondi Świecie with the majority of its electricity requirements and all its heat and steam needs. The option was subject to certain conditions precedent, being a ruling from the Arbitration Court of the National Chamber of Commerce in Poland, consent of the financing banks of the power and heat generating plant and receipt of approval from the competition authorities. On 10 February 2012, the Arbitration Court ruled in favour of Mondi Świecie, fulfilling the first of these conditions. Competition approval has been received and application has been made to the financing banks for approval. Based on the option price, the implied enterprise value of the business is around €90 million. The outcome and timing of any potential acquisition remains uncertain.

On 16 February 2012, Mondi made an all cash offer of PLN 69.00 (€16.48) per share for the 34% of Mondi Świecie S.A. shares that it does not already own. Mondi Świecie is listed on the Warsaw Stock Exchange. The maximum consideration, should all outstanding shares be acquired, is PLN 1.2 billion (€280 million).

Other than as set out above, with the exception of the proposed final dividend for 2011, included in note 12, there have been no material reportable events since 31 December 2011.

Pro-forma financial information

The directors have in the past presented underlying earnings per share in accordance with IAS33.73 as they believe it provides a useful measure for shareholders to understand the underlying financial performance of the Group. Underlying earnings represents the earnings of the Group, from continuing operations, excluding special items. Special items are 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 of the Group. IAS33 requires that the number of shares subject to the Mondi Limited share consolidation be adjusted from the effective date of the consolidation. This results in a mismatch between the underlying earnings, which excludes the discontinued operation for the full year, and the weighted average number of shares, which only reflects the adjusted number of shares from the date of the share consolidation.

The directors have therefore elected to present an alternative, non-IFRS measure of underlying earnings per share from continuing operations in order to provide shareholders with a comparison of the continuing operations of the Group as if the demerger of Mpact and related Mondi Limited share consolidation had occurred at the beginning of each financial year presented. This is deemed appropriate as it is the continuing operations of the Group, after taking the impact of the share consolidation into consideration, which will be the basis of the future performance of the Group. This approach will enable a useful comparison of earnings per share from continuing operations, based on the consolidated shares, for all future periods.

The presentation of such an alternative, non-IFRS measure of earnings per share is classified by the JSE Limited (JSE) as pro-forma financial information and must comply with section 8 of the JSE Listings Requirements. The unaudited pro-forma financial information below has been prepared for illustrative purposes to provide information on how the alternative measure of earnings per share adjustments would have impacted on the financial results of the Group. Because of its nature, the unaudited pro-forma financial information does not reflect the Group's actual results of operations which are set out in the audited financial statements.

The unaudited pro-forma results set out below only reflect an adjustment to the combined and consolidated income statement as the statement of financial position already reflects the demerger of Mpact and no adjustments are deemed necessary. The statement of comprehensive income is not presented as the pro-forma information relates only to the earnings per share measures, determined from the combined and consolidated income statement. The directors do not propose to present any pro-forma measures other than those relating to underlying earnings per share and therefore have not presented the effect of the pro-forma adjustments to headline earnings per share or earnings per share measures from continuing and discontinued operations.

The underlying information used in the preparation of the pro-forma financial information has been prepared using the accounting policies set out in note 1 of the audited financial statements for the year ended 31 December 2011 without adjustment.

The directors of the Group are responsible for the compilation, contents and preparation of the unaudited pro-forma financial information set out below. Their responsibility includes determining that: the unaudited pro-forma financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of the Group; and the pro-forma adjustments are appropriate for the purposes of the unaudited pro-forma financial information disclosed in terms of the JSE Listings Requirements.

Since there are no significant subsequent events after 31 December 2011 that would impact these results, no adjustments have been made to the unaudited pro-forma financial information. The unaudited pro-forma financial information should be read in conjunction with the Deloitte & Touche independent reporting accountants' report thereon.

Pro-forma combined and consolidated income statement

for the year ended 31 December 2011

€ million	2011 Audited (A)	2011 Adjust-ments	2011 Pro-forma (unaudited)	2010 Audited (A)	2010 Adjust-ments	2010 Pro-forma (unaudited)
Continuing operations						
Group revenue	**5,739**	**–**	**5,739**	5,610	–	5,610
Materials, energy and consumables used	(2,998)	–	(2,998)	(3,006)	–	(3,006)
Variable selling expenses	(511)	–	(511)	(494)	–	(494)
Gross margin	**2,230**	**–**	**2,230**	2,110	–	2,110
Maintenance and other indirect expenses	(272)	–	(272)	(272)	–	(272)
Personnel costs (excluding special items)	(808)	–	(808)	(829)	–	(829)
Other net operating expenses (excluding special items)	(186)	–	(186)	(211)	–	(211)
Depreciation and amortisation	(342)	–	(342)	(340)	–	(340)
Underlying operating profit	**622**	**–**	**622**	458	–	458
Special items (note B)	(55)	–	(55)	(21)	–	(21)
Net income from associates	1	–	1	2	–	2
Total profit from operations and associates	**568**	**–**	**568**	439	–	439
Net finance costs	**(111)**	**3**	**(108)**	(106)	7	(99)
Investment income	30	–	30	31	–	31
Foreign currency gains	–	–	–	7	–	7
Finance costs (note B)	(141)	3	(138)	(144)	7	(137)
Profit before tax	**457**	**3**	**460**	333	7	340
Tax (charge)/credit (note B)	(100)	3	(97)	(82)	6	(76)
Profit from continuing operations	**357**	**6**	**363**	251	13	264
Profit from discontinued operations	43	–	43	34	–	34
Profit for the financial year	**400**	**6**	**406**	285	13	298
Attributable to:						
Non-controlling interests	**70**	**–**	**70**	61	–	61
Equity holders of the parent companies	**330**	**6**	**336**	224	13	237
Earnings per share (EPS) for profit attributable to equity holders of the parent companies						
From continuing operations (note D)						
Basic underlying EPS (€ cents)	**68.1**		**71.8**	40.6		45.6
Diluted underlying EPS (€ cents)	**67.3**		**70.9**	40.1		45.2

FINANCIAL STATEMENTS

Notes to the pro-forma combined and consolidated income statement

A. The Group financial information has been extracted, without adjustment, from the Group's audited combined and consolidated financial statements for the year ended 31 December 2011.

B. The adjustments to the audited financial statements to reflect the unaudited pro-forma earnings are set out below:

€ million	Earnings 2011	Earnings (Restated) 2010
Profit for the year attributable to equity holders of the parent companies	**330**	224
Discontinued operation	(43)	(34)
Non-controlling interests in discontinued operation	-	2
Effect of special items (refer note 10(a) of the audited annual financial statements)	55	21
Tax and non-controlling interests in respect of special items (refer note 10(a) of the audited annual financial statements)	(2)	(7)
Underlying earnings attributable to equity holders of the parent companies (refer note 10(a) of the audited annual financial statements)[1]	**340**	206
Pro-forma adjustments		
Saving of interest paid on net debt at 8.6% per annum[2]	3	7
Tax at 28% on saving of interest paid	(1)	(2)
Tax saving by Mondi Limited on intercompany interest received from Mpact[3]	4	8
Adjusted pro-forma underlying earnings for the financial year	**346**	219

Notes:
1 Underlying earnings excludes the impact of special items as described in note 5 of the audited annual financial statements.
2 The effect of the recapitalisation of Mpact resulted in a repayment of intercompany debt by Mpact to Mondi Limited on 4 and 5 July 2011 of €76 million. These proceeds were used to reduce the Group's net debt. The alternative measure of earnings per share has been adjusted to take the related saving on interest paid into consideration as if the recapitalisation had occurred at the beginning of each period presented.
3 Had the recapitalisation of Mpact occurred at the beginning of each financial year presented, Mondi Limited would no longer have received interest on its intercompany loans to Mpact and thus the tax charge on the interest received would not have been incurred.

C. The revised weighted average number of shares is determined as follows:

million	Number of shares 2011	Number of shares (Restated) 2010
Basic number of ordinary shares outstanding	**499**	508
Adjustment for Mondi Limited share consolidation[1]	(17)	(28)
Adjusted basic number of ordinary shares outstanding[2]	**482**	**480**
Effect of dilutive potential ordinary shares[3]	6	5
Diluted number of ordinary shares outstanding after Mondi Limited share consolidation	**488**	**485**

Notes:
1 The actual number of shares subject to consolidation was 29 million. The adjustment reflects the impact on the number of shares as if the share consolidation had occurred with effect from 1 January 2011 and takes treasury shares into consideration. In 2011, the adjustment reflects the period up to the date of the share consolidation as the share consolidation is included in the basic number of ordinary shares outstanding from 1 August 2011 as set out in note 10(a) of the audited annual financial statements.
2 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.
3 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.

D. Based on the adjusted earnings and weighted average number of shares, the alternative, non-IFRS underlying earnings per share figures for continuing operations would be:

€ cents per share	2011	(Restated) 2010
Underlying earnings per share – alternative measure for the financial year		
Basic EPS – alternative measure	**71.8**	45.6
Diluted EPS – alternative measure	**70.9**	45.2

The directors do not propose to present any pro-forma measures other than those relating to underlying earnings per share and therefore have not presented the effect of the pro-forma adjustments to headline earnings per share or earnings per share measures from continuing and discontinued operations.

Independent reporting accountants' assurance report

on the pro-forma financial information of the Mondi dual listed structure ('Mondi Group')

We have performed our limited assurance engagement in respect of the pro-forma financial information set out on pages 160 to 162 of the combined and consolidated financial statements for the year ended 31 December 2011 dated 22 February 2012 issued in connection with presentation of the alternative, non-IFRS measure of earnings per share from continuing operations in the combined and consolidated financial statements of Mondi Group for the year ended 31 December 2011. The presentation of this alternative, non-IFRS measure is disclosed to provide shareholders with a comparison of the continuing operations of the Group as if the demerger of Mpact Limited and related share consolidation in Mondi Limited had occurred at the beginning of each financial year presented. The demerger of Mpact Limited and the share consolidation was finalised in August 2011. The pro-forma financial information has been prepared in accordance with the requirements of the JSE Limited ('JSE') Listings Requirements, for illustrative purposes only, to provide information about how the alternative, non-IFRS measure might affect the reported financial information presented.

Directors' responsibility

The directors are responsible for the compilation, contents and presentation of the pro-forma financial information contained in the combined consolidated financial statements. Their responsibility includes determining that: the pro-forma financial information has been properly compiled on the basis stated; the basis is consistent with the accounting policies of the Mondi Group and the pro-forma adjustments are appropriate for the purposes of the pro-forma financial information disclosed in terms of the JSE Listings Requirements.

Reporting accountants' responsibility

Our responsibility is to express our limited assurance conclusion on the pro-forma financial information included in the combined consolidated financial statements of the Mondi Group. We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements applicable to Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and the Guide on Pro-Forma Financial Information issued by SAICA.

This standard requires us to obtain sufficient appropriate evidence on which to base our conclusion.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro-forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Sources of information and work performed

Our procedures consisted primarily of comparing the unadjusted financial information with the source documents, considering the pro-forma adjustments in light of the accounting policies of the Mondi Group, the issuer, considering the evidence supporting the pro-forma adjustments and discussing the adjusted pro-forma financial information with the directors of the Group in respect of the alternative, non-IFRS measure presented in the combined consolidated results that is a result of the demerger of Mpact completed in August 2011.

In arriving at our conclusion, we have relied upon financial information prepared by the directors of the Mondi Group and other information from various public, financial and industry sources.

While our work performed has involved an analysis of the historical published audited financial information and other information provided to us, our assurance engagement does not constitute an audit or review of any of the underlying financial information conducted in accordance with International Standards on Auditing or International Standards on Review Engagements and accordingly, we do not express an audit or review opinion.

In a limited assurance engagement, the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Independent reporting accountants' assurance report

continued

Conclusion

Based on our examination of the evidence obtained, nothing has come to our attention, which causes us to believe that:

- the pro-forma financial information has not been properly compiled on the basis stated, such basis is inconsistent with the accounting policies of the issuer; and
- the adjustments are not appropriate for the purposes of the pro-forma financial information as disclosed, in terms of the sections 8.17 and 8.30 of the JSE Listings Requirements.

Consent

We consent to the inclusion of this report, which will form part of the combined and consolidated financial statements, to be issued on or about 22 February 2012, in the form and context in which it will appear.

Deloitte & Touche
Registered Auditors
Per Bronwyn Kilpatrick
Partner
Sandton
22 February 2012

Building 1, 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 & Legal Services **NB Kader** Tax **L Geeringh** Consulting **L Bam** Corporate Finance **JK Mazzocco** Human Resources **CR Beukman** Finance **TJ Brown** 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 in terms of the Accountancy Profession Sector Code

Member of Deloitte Touch Tohmatsu Limited

Independent auditors' report to the shareholders of Mondi Limited

Report on the summary financial statements

The accompanying summary financial statements, which comprise the statement of financial position as at 31 December 2011 and selected notes are derived from the audited financial statements of Mondi Limited for the year ended 31 December 2011. We expressed an unmodified audit opinion on those financial statements in our report dated 22 February 2012. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRSs). Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of Mondi Limited.

Directors' responsibility for the components of the financial statements

The directors are responsible for the preparation of the summary financial statements in accordance with the framework concepts and the measurement and recognition requirements of IFRSs and the requirements of the Companies Act of South Africa.

Auditors' responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, 'Engagements to Report on Summary Financial Statements.'

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Mondi Limited for the year ended 31 December 2011 are consistent, in all material respects, with those financial statements, in accordance with the framework concepts and the measurement and recognition requirements of IFRSs and the requirements of the Companies Act of South Africa.

Deloitte & Touche
Registered Auditors
Per Bronwyn Kilpatrick
Partner
Sandton
22 February 2012

Building 1, 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 & Legal Services **NB Kader** Tax **L Geeringh** Consulting **L Bam** Corporate Finance **JK Mazzocco** Human Resources **CR Beukman** Finance **TJ Brown** 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 in terms of the Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

Mondi Limited parent company statement of financial position

as at 31 December 2011

R million	Notes	**2011**	2010
Property, plant and equipment		5,396	5,653
Forestry assets		2,294	2,101
Investments in subsidiaries	2	10	2,397
Investment in associate	3	24	–
Investment in joint venture	4	405	368
Financial asset investments		5	152
Retirement benefits surplus		80	60
Total non-current assets		**8,214**	10,731
Inventories		531	373
Trade and other receivables		1,343	1,183
Investments in subsidiaries	2	76	77
Financial asset investments		47	22
Cash and cash equivalents		54	8
Derivative financial instruments		17	17
Assets held for sale		5	10
Total current assets		**2,073**	1,690
Total assets		**10,287**	12,421
Short-term borrowings		(1,905)	(1,719)
Trade and other payables		(927)	(743)
Provisions		(65)	(83)
Derivative financial instruments		(1)	(2)
Total current liabilities		(2,898)	(2,547)
Medium and long-term borrowings		(1)	(299)
Retirement benefits obligation		(789)	(741)
Deferred tax liabilities		(1,554)	(1,468)
Provisions		(27)	(27)
Total non-current liabilities		**(2,371)**	(2,535)
Total liabilities		**(5,269)**	(5,082)
Net assets		**5,018**	7,339
Equity			
Stated capital	5;6	4,188	5,176
Retained earnings and other reserves	6	830	2,163
Total equity		**5,018**	7,339

The statement of financial position of Mondi Limited and related notes were approved by the board and authorised for issue on 22 February 2012 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

Mondi Limited company registration number: 1967/013038/06

Notes to the Mondi Limited parent company financial statements

for the year ended 31 December 2011

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
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	**2011**	2010
Unlisted		
Shares at cost	10	255
Loans advanced	76	2,219
Total investment in subsidiaries	**86**	2,474
Repayable within one year disclosed as a current asset	(76)	(77)
Total long-term investment in subsidiaries	**10**	2,397

3 Investment in associate

R million	**2011**	2010
Mpact Recycling (Proprietary) Limited		
Shares at cost	24	–
Total investment in associate	**24**	–
Total long-term investment in associate	**24**	–

4 Investment in joint venture

R million	**2011**	2010
Mondi Shanduka Newsprint (Proprietary) Limited		
Shareholder's loan	128	128
Mezzanine loan	277	240
Total investment in joint venture	**405**	368
Total long-term investment in joint venture	**405**	368

Notes to the Mondi Limited parent company financial statements

continued

for the year ended 31 December 2011

5 Stated capital

Mondi Limited's share capital was subject to a number of changes during the year ended 31 December 2011, the detail of which is disclosed in note 28 of the Group's combined and consolidated financial statements.

2011/*R million*	**Stated capital**
Called-up, allotted and fully paid[1]	
118,312,975 ordinary shares with no par value	4,114
367,240,805 special converting shares with no par value	74
Total	**4,188**

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

Note:
[1] The authorised share capital is disclosed in note 28 of the Group's combined and consolidated financial statements.

6 Reconciliation of movement in equity

R million	Stated capital	Retained earnings	Other reserves	Total equity
At 1 January 2010	5,176	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	5,176	1,999	164	7,339
Dividends paid	–	(330)	–	(330)
Effect of dividend in specie distributed	(988)	(977)	–	(1,965)
Total comprehensive income for the year	–	(21)	(25)	(46)
Mondi share schemes' charge	–	–	23	23
Issue of Mondi Limited shares under employee share schemes	–	23	(21)	2
Share options exercised – Anglo American share scheme	–	(2)	–	(2)
Shares vested from Mondi Incentive Schemes Trust	–	(3)	–	(3)
Reclassification	–	160	(160)	–
At 31 December 2011	**4,188**	**849**	**(19)**	**5,018**

7 Contingent liabilities

Contingent liabilities for the company comprises aggregate amounts as at 31 December 2011 of R73 million (2010: R74 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.

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 2011 which comprise the parent company 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:
- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the 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 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 Group financial statements of Mondi plc for the year ended 31 December 2011.

Panos Kakoullis, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
22 February 2012

Mondi plc parent company balance sheet

as at 31 December 2011

€ million	Notes	2011	2010
Fixed asset investments	5	2,938	2,938
Total non-current assets		**2,938**	2,938
Trade and other receivables		13	14
Cash and cash equivalents		2	–
Total current assets		**15**	14
Total assets		**2,953**	2,952
Trade and other payables		(8)	(9)
Bank overdrafts		–	(23)
Short-term borrowings	6	–	(1,202)
Total current liabilities		**(8)**	–
Non-current provisions		(1)	–
Total non-current liabilities		**(1)**	–
Total liabilities		**(9)**	(1,234)
Net assets		**2,944**	1,718
Equity			
Ordinary share capital	7;8	103	103
Retained earnings	8	2,828	1,602
Share-based payments reserve	8	13	13
Total equity		**2,944**	1,718

The balance sheet of Mondi plc and related notes were approved by the board and authorised for issue on 22 February 2012 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

Mondi plc company registered number: 6209386

Notes to the Mondi plc parent company financial statements

for the year ended 31 December 2011

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 Group financial statements, 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 euro, 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.

Notes to the Mondi plc parent company financial statements

continued

for the year ended 31 December 2011

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 and loss over the borrowing period using the effective interest rate method.

Share-based payments

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 Group's defined benefit pension plans.

2 Employees

The average number of staff employed by Mondi plc for the year ended 31 December 2011 was 19 (2010: 21). Wages and salaries of €13 million (2010: €11 million), including social security costs of €2 million (2010: €1 million), were incurred in respect of these employees.

3 Auditor's remuneration

Disclosure of the audit fees payable to the auditor for the audit of Mondi plc's financial statements is made in note 3 of the Group's combined and consolidated financial statements.

4 Share-based payments

The number of share awards granted by Mondi plc to its employees is presented below:

2011/Scheme	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	31 December
BSP	723,403	186,504	(190,312)	–	719,595
LTIP	2,916,680	422,852	(207,254)	(414,496)	2,717,782
Co-Investment Plan	538,795	–	(538,795)	–	–
Total	**4,178,878**	**609,356**	**(936,361)**	**(414,496)**	**3,437,377**

The total fair value charge in respect of these awards for the year ended 31 December 2011 was €3 million (2010: €2 million). The share schemes and the underlying assumptions used to estimate the associated fair value charge are discussed in note 29 of the Group's combined and consolidated financial statements.

5 Fixed asset investments

€ million	2011	2010
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	2011	2010
Amounts owed to Group undertakings	–	1,202
Total	**–**	1,202

Mondi plc had borrowed funds from other Group undertakings. The borrowings were denominated in euro, carried interest at a floating rate and were settled during 2011.

7 Ordinary share capital

Full disclosure of the share capital of Mondi plc is disclosed in note 28 of the Group's combined and consolidated financial statements.

8 Reconciliation of shareholders' funds

€ million	Share capital	Retained earnings	Share-based payments reserve	Total
At 1 January 2010	103	1,675	12	1,790
Dividends paid	–	(38)	–	(38)
Mondi share schemes' charge	–	–	6	6
Issue of shares under employee share schemes	–	5	(5)	–
Retained loss after tax	–	(40)	–	(40)
At 31 December 2010	103	1,602	13	1,718
Dividends paid	–	(92)	–	(92)
Mondi share schemes' charge	–	–	9	9
Issue of shares under employee share schemes	–	9	(9)	–
Purchase of treasury shares	–	(5)	–	(5)
Retained profit after tax	–	1,314	–	1,314
At 31 December 2011	**103**	**2,828**	**13**	**2,944**

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 (2010: €nil). The fair value of these issued financial guarantees is deemed to be immaterial.

Group financial record

Financial performance 2007 – 2011[1]

Combined and consolidated income statement

€ million	2011	(Restated) 2010	2009[2]	2008[2]	2007[2]
Group revenue (after inter-segmental revenue elimination)					
Europe & International					
Uncoated Fine Paper	1,409	1,387	1,221	1,391	1,489
Corrugated	1,320	1,176	1,005	1,497	1,561
Bags & Coatings	2,432	2,187	1,763	2,116	1,986
Total Europe & International	5,161	4,750	3,989	5,004	5,036
South Africa Division	414	369	268	302	224
Mpact[2]	–	–	473	447	391
Newsprint businesses	164	491	527	592	590
Corporate & other businesses	–	–	–	–	28
Total Group revenue	**5,739**	5,610	5,257	6,345	6,269
Underlying operating profit/(loss)					
Europe & International					
Uncoated Fine Paper	205	179	146	126	99
Corrugated	178	119	23	49	133
Bags & Coatings	228	133	82	159	154
Total Europe & International	611	431	251	334	386
South Africa Division	62	64	32	111	78
Mpact[2]	–	–	36	28	35
Newsprint businesses	(18)	(4)	12	7	40
Corporate & other businesses	(33)	(33)	(37)	(39)	(37)
Underlying operating profit	**622**	458	294	441	502
Special items	(55)	(21)	(133)	(387)	6
Net income from associates	1	2	2	2	2
Total profit from operations and associates	**568**	439	163	56	510
Net finance costs, including special finance item in 2007	(111)	(106)	(114)	(159)	(128)
Profit/(loss) before tax	**457**	333	49	(103)	382
Tax charge	(100)	(82)	(52)	(78)	(102)
Profit/(loss) from continuing operations	**357**	251	(3)	(181)	280
Profit from discontinued operation	14	34	–	–	–
Net gain on distribution of discontinued operation	29	–	–	–	–
Profit/(loss) for the financial year	**400**	285	(3)	(181)	280
Non-controlling interests	(70)	(61)	(30)	(30)	(47)
Profit/(loss) attributable to equity holders of the parent companies	**330**	224	(33)	(211)	233
Underlying earnings[3]	**340**	206	95	172	241

Notes:

1 Prepared on a combined and consolidated basis and in accordance with applicable IFRS.

2 The information from continuing operations presented for the years prior to 2010 includes the results of Mpact Limited, formerly Mondi Packaging South Africa (Proprietary) Limited, which was demerged from the Group on 11 July 2011 and thus classified as a discontinued operation from 1 January 2010.

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 from continuing operations before special items.

Key performance indicators

%	2011	(Restated) 2010	2009[1]	2008[1]	2007[1]
EBITDA margin[2]	**16.8**	14.2	12.3	12.8	13.9
Operating margin[3]	**10.8**	8.2	5.6	7.0	8.0
ROCE[4]	**15.0**	12.3	7.6	9.5	10.6

Notes:
1 The information from continuing operations presented for the years prior to 2010 includes the results of Mpact Limited, formerly Mondi Packaging South Africa (Proprietary) Limited, which was demerged from the Group on 11 July 2011 and thus classified as a discontinued operation from 1 January 2010.
2 EBITDA margin is Group EBITDA divided by Group revenue.
3 Operating margin is Group underlying operating profit divided by Group revenue.
4 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	2011	(Restated) 2010	2009[1]	2008[1]	2007[1]
EBITDA[2]	**964**	882	645	814	870
Cash generated from operating activities	**834**	734	867	795	957
Capital expenditure cash outflows[3]	**(263)**	(394)	(517)	(693)	(406)

Notes:
1 The information from continuing operations presented for the years prior to 2010 includes the results of Mpact Limited, formerly Mondi Packaging South Africa (Proprietary) Limited, which was demerged from the Group on 11 July 2011 and thus classified as a discontinued operation from 1 January 2010.
2 EBITDA is Group operating profit from continuing operations before special items, depreciation and amortisation.
3 Excludes business combinations and investments in intangible assets.

Combined and consolidated statement of financial position

€ million	2011	2010	2009	2008	2007
Non-current assets	3,971	4,693	4,476	4,208	4,549
Current assets[1]	1,482	1,717	1,609	1,898	2,133
Total assets	**5,453**	6,410	6,085	6,106	6,682
Current liabilities[2]	(1,020)	(1,185)	(1,159)	(1,154)	(1,248)
Non-current liabilities[3]	(567)	(637)	(585)	(566)	(591)
Total liabilities	**(1,587)**	(1,822)	(1,744)	(1,720)	(1,839)
Net assets excluding net debt	**3,866**	4,588	4,341	4,386	4,843
Equity	2,586	2,763	2,399	2,323	2,963
Non-controlling interests	449	461	425	373	373
Net debt	831	1,364	1,517	1,690	1,507
Total equity and net debt	**3,866**	4,588	4,341	4,386	4,843

Notes:
1 Including assets held for sale and excluding cash and cash equivalents and current financial asset investments.
2 Including liabilities directly associated with assets classified as held for sale and excluding net debt.
3 Excluding net debt.

Production statistics

Production statistics

		2011	2010
Europe & International			
Uncoated fine paper	Tonnes	1,400,991	1,524,225
Containerboard	Tonnes	2,009,984	1,939,935
Kraft paper	Tonnes	955,741	984,607
Hardwood pulp	Tonnes	1,033,226	935,628
Internal consumption	Tonnes	975,121	825,664
External	Tonnes	58,105	109,964
Softwood pulp	Tonnes	1,954,284	1,899,518
Internal consumption	Tonnes	1,799,577	1,688,472
External	Tonnes	154,707	211,046
Corrugated board and boxes	Mm^2	1,213	1,308
Industrial bags	M units	3,958	3,850
Coating and release liners	Mm^2	3,357	3,187
Newsprint	Tonnes	199,337	197,601
South Africa Division			
Uncoated fine paper	Tonnes	233,837	276,957
Containerboard	Tonnes	257,680	259,785
Hardwood pulp	Tonnes	637,205	589,186
Internal consumption	Tonnes	316,388	366,170
External	Tonnes	320,817	223,016
Softwood pulp	Tonnes	115,606	112,956
Woodchips	Bone dry tonnes	206,150	280,154
Newsprint Joint Ventures (attributable share)			
Aylesford	Tonnes	188,536	187,971
Mondi Shanduka Newsprint (MSN)	Tonnes	124,914	126,530

Exchange rates

	2011	2010
Closing rates against the euro		
South African rand	10.48	8.86
Pounds sterling	0.84	0.86
Polish zloty	4.46	3.97
Russian rouble	41.77	40.82
US dollar	1.29	1.34
Czech koruna	25.79	25.06
Turkish lira	2.44	2.07
Average rates for the period against the euro		
South African rand	10.10	9.70
Pounds sterling	0.87	0.86
Polish zloty	4.12	3.99
Russian rouble	40.88	40.27
US dollar	1.39	1.33
Czech koruna	24.59	25.29
Turkish lira	2.34	2.00

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 2011 comprised 367,240,805 ordinary shares of 20 euro cents each (the 'Ordinary Shares') representing 71.4% of the total share capital, 118,312,975 PLC Special Converting Shares of 20 euro cents each representing 23.0% of the total share capital, 146,896,322 deferred shares of 4 euro cents each (the 'Deferred Shares') representing 5.5% 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 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

Additional information for Mondi plc shareholders

continued

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 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.

Deferred Shares

The rights and privileges attached to the Deferred Shares are as follows: no entitlement to receive any dividend or distribution declared, made or paid or any return of capital (save as described below) and does not entitle the holder to any further or other right of participation in the assets of Mondi plc.

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 Deferred Shares shall be entitled to participate but such entitlement is limited to the repayment of the amount paid up or credited as paid up on such share and shall be paid only after the holders of any and all Ordinary Shares then in issue shall have received (i) payment in respect of such amount as is paid up or credited as paid up on those Ordinary Shares held by them at that time plus (ii) the payment in cash or in specie of £10,000,000 on each such Ordinary Share.

The holders of the Deferred Shares are not entitled to receive notice of, nor attend, speak or vote at, any general meeting of Mondi plc.

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 of incorporation 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 Mondi plc and the memorandum of incorporation of 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. A special resolution will be put to the annual general meeting scheduled for 3 May 2012 to adopt a new set of Articles of Mondi plc.

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 2011 Mondi Limited had 118,312,975 ordinary shares in issue and Mondi plc had 367,240,805 ordinary shares in issue, of which 174,813,898 were held on the South African branch register.

By size of holding

Mondi Limited

Number of shareholders	% of shareholders	Size of shareholding	Number of shares	% of shares
30,106	94.54	1 – 500	823,070	0.70
477	1.50	501 – 1,000	339,628	0.29
503	1.58	1,001 – 5,000	1,129,262	0.95
504	1.58	5,001 – 50,000	9,916,451	8.38
230	0.72	50,001 – 1,000,000	45,007,459	38.04
25	0.08	1,000,001 – highest	61,097,105	51.64
31,845	100.00		118,312,975	100.00

Mondi plc

Number of shareholders	% of shareholders	Size of shareholding	Number of shares	% of shares
5,094	78.17	1 – 500	548,325	0.15
489	7.50	501 – 1,000	359,219	0.10
473	7.26	1,001 – 5,000	1,023,937	0.28
224	3.44	5,001 – 50,000	3,993,730	1.09
201	3.08	50,001 – 1,000,000	48,597,611	13.23
36	0.55	1,000,001 - highest	312,717,983	85.15
6,517	100.00		367,240,805	100.00

By type of holding

Mondi Limited

	No. of holders	No. of shares	% of shares
Public[1]	31,842	117,548,083	99.36
Non-public	3	764,892	0.64
Directors of Mondi Limited/Mondi plc	*2*	*3,430*	*0.00*
Mondi staff share schemes[2]	*1*	*761,462*	*0.64*
Total	31,845	118,312,975	100.00

Mondi plc

	No. of holders	No. of shares	% of shares
Public[1]	6,506	363,255,799	98.92
Non-public	11	3,985,006	1.08
Directors of Mondi Limited/Mondi plc	*9*	*859,017*	*0.23*
Mondi staff share schemes[2]	*2*	*3,125,989*	*0.85*
Total	6,517	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.

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	011 713 0800 (if calling from South Africa) +27 11 713 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

3 May 2012	2012 annual general meetings
3 May 2012	Interim management statement
10 May 2012	Payment date for 2011 final dividend (see below)
7 August 2012	2012 half-yearly results announcement
September 2012	2012 interim dividend payment
31 October 2012	Interim management statement

Dividends

Dividend payments

An interim dividend for the year ended 31 December 2011 of 78.79484 rand cents/8.25 euro cents per share was paid on 13 September 2011 to all Mondi Limited and Mondi plc ordinary shareholders on the relevant registers on 19 August 2011.

A proposed final dividend for the year ended 31 December 2011 of 181.38548 rand cents/17.75 euro cents per share will be paid on 10 May 2012 to all Mondi Limited and Mondi plc ordinary shareholders on the relevant registers on 13 April 2012. 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 3 May 2012.

Dividend timetable

The proposed final dividend for the year ended 31 December 2011 of 17.75 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	4 April 2012	4 April 2012
London Stock Exchange	Not applicable	10 April 2012
Shares commence trading ex-dividend		
JSE Limited	5 April 2012	5 April 2012
London Stock Exchange	Not applicable	11 April 2012
Record date		
JSE Limited	13 April 2012	13 April 2012
London Stock Exchange	Not applicable	13 April 2012
Last date for receipt of Dividend Reinvestment Plan (DRIP) elections by Central Securities Depository Participants	19 April 2012	19 April 2012
Last date for DRIP elections to UK Registrar and South African Transfer Secretaries by shareholders of Mondi Limited and Mondi plc	20 April 2012	15 April 2012*
Payment date		
South African Register	10 May 2012	10 May 2012
UK Register	Not applicable	10 May 2012
DRIP purchase settlement dates	17 May 2012	15 May 2012**
Currency conversion dates		
ZAR/euro	23 February 2012	23 February 2012
Euro/sterling	Not applicable	24 April 2012

* 20 April 2012 for Mondi plc South African branch register shareholders
** 17 May 2012 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 5 April 2012 and 15 April 2012, both dates inclusive, nor may transfers between the UK and South African registers of Mondi plc take place between 4 April 2012 and 15 April 2012, 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 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

Electronic communications

Shareholders can elect to access certain shareholder documents, for example the integrated report, electronically via Mondi's website rather than receiving them by post. Electing to access documents in this way will mean you will receive an email alerting you each time Mondi circulates a new shareholder document or communication. This will contain a link that will direct you to the appropriate page on Mondi's website where you can view the documents at your own convenience.

Shareholders on the main Mondi plc register can elect to receive documents electronically by logging on to the Capita Registrars share portal service at www.capitashareportal.com. For further information please contact Capita Registrars.

Mondi Limited shareholders and Mondi plc shareholders on the South African branch register can elect to receive documents electronically by contacting Link Market Services South Africa (Proprietary) Limited on +27 (0)11 713 0800 or by emailing corpactfax@linkmarketservices.co.za.

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 or the opportunity to buy or sell worthless or non-existent shares. Should you receive any unsolicited calls or documents to this effect, you are advised not to give out any personal details or to hand over any money without ensuring that the organisation is authorised by the UK Financial Services Authority (FSA) and doing further research. If you are unsure or think you may have been targeted you should report the organisation to the 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

Mondi Limited

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

Tel. +27 (0) 11 994 5400
Fax. +27 (0) 86 520 4688

Registered in South Africa
Registration No. 1967/013038/06

Registered office

Mondi plc

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

Tel. +44 (0)1932 826300
Fax. +44 (0)1932 826350

Registered in England and Wales
Registered No. 6209386

Website: www.mondigroup.com

Glossary of terms

This report contains a number of terms which are explained below. For a detailed glossary of sustainability terms refer to our online sustainable development report at www.mondigroup.com/sustainability.

CoC	Chain-of-Custody
COD	Chemical oxygen demand
Controversial sources	A term commonly used in the public domain in our industry. Mondi defines controversial sources as wood that is illegally harvested, in violation of traditional and civil rights, harvested in forest management units in which high conservation values are threatened by management activities, harvested in areas in which forests are being converted to plantations or non-forest use or harvested from forests in which genetically modified trees are planted.
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).
FSC™	Forest Stewardship Council
Gearing	The ratio of net debt to total capital employed.
GHG	Greenhouse gases
GRI	Global Reporting Initiative
Group revenue	Total turnover of subsidiaries and proportionate share of joint venture turnover.
HCV	High conservation value
Headline earnings	JSE Listings measure, calculated in accordance with Circular 3/2009, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.
Material operations	Mondi's pulp and paper mills
Net debt	A measure comprising short, 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 benefit 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.
Nitrogen oxides (NO and NO_2)	Gases emitting from boilers, fuel combustion, and incineration of waste.
Operating margin	Underlying operating profit divided by Group revenue.
PEFC	Programme for the Endorsement of Forest Certification.
Reported profit/(loss) before tax	Reported profit/(loss) before tax but after special items.
Return on capital employed (ROCE)	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.
Scope 1 emissions	Total GHG emissions from sources owned or controlled by Mondi and its subsidiaries of the Group boundaries. This includes CO_2e from fossil fuels and processes, company leased/owned vehicle, waste and waste water treatment, from make-up chemicals, and from other GHG gases.
Scope 2 emissions	Total GHG emissions from sources that are related to generation of purchased energy outside the company boundaries (no other GHG considered but CO_2).
Scope 3 emissions	Total GHG emissions from the production of purchased material, outsourced activities, disposal of waste and business travel.
Shareholders' funds	Share capital and share premium, stated capital, retained earnings and other reserves attributable to equity holders of the parent companies.
Special items	Those non-recurring financial items from continuing operations 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.
Specific (specific consumption and emissions)	Calculated per saleable production (the absolute amount divided by the saleable production volumes).
Total equity	Shareholders' funds and non-controlling interests in equity.
Trading capital employed	Net segment assets plus investments in associates, deferred tax, and other non-operating assets and liabilities excluding financial investments.
TRCR	Total recordable case rate (TRCR) is calculated as the number of total recordable cases (the sum of fatalities, lost-time injuries, restricted work cases, medical treatment cases and occupational diseases) divided by the number of hours worked per 200,000 man hours.
TRS	Total reduced sulphur compounds
Underlying earnings	Net profit from continuing operations after tax before special items attributable to equity holders of the parent companies.
Underlying operating profit	Operating profit of subsidiaries and joint ventures from continuing operations before special items.
Underlying profit before tax	Reported profit from continuing operations before tax and special items.
UNGC	United Nations Global Compact
WBCSD	World Business Council for Sustainable Development

For further information, please see:

FSC
Mixed Sources
Product group from well-managed forests and other controlled sources
Cert no. TT-COC-002226
www.fsc.org
© 1996 Forest Stewardship Council

Mondi Group

Sustainable development review 2011

For the full online sustainable development report please go to www.mondigroup.com/sustainability

www.mondigroup.com

Design by Russell and Associates
www.rair.co.za
Printed by Colorpress (pty) ltd
on FSC™ certified Mondi
250gsm MAESTRO® PRINT,
120gsm MAESTRO® PRINT
and 80gsm IQ color

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 pages 24 and 25. 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.