



Mondi Group

Integrated report

and financial statements 2012



How to use our 2012 reports

This year our suite of reports consists of our Integrated report and financial statements, our printed response to global sustainability issues, *Shaping our sustainable future*, and our Sustainable development report, only available online.

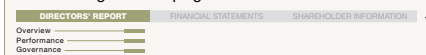
IR Integrated report and financial statements 2012



In this report we review our strategy and performance in 2012. This report is also available online at www.mondigroup.com/ir12.



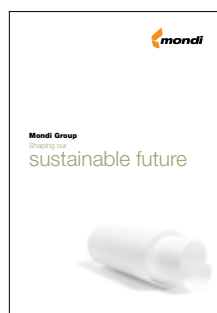
Find your place by using the colour coded header on each right hand page



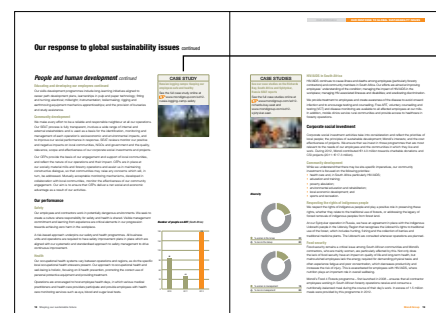
This icon alerts you to further useful information on a specific topic to be found elsewhere

SSS More detail on this section can be found on pages 23 – 25

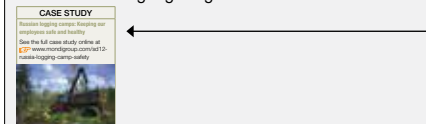
SSF Shaping our sustainable future



Read about Mond's response to global sustainability issues including people and human development, forests, economy, energy and climate change, and water. This report is available as a downloadable pdf at www.mondigroup.com/ssf12.



Case studies highlighting our material issues



SD Sustainable development report 2012



Our Sustainable development report 2012 is published exclusively on our website at www.mondigroup.com/sd12. This report is in line with the reporting guidelines of the Global Reporting Initiative (GRI) to a B+ level.

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Use the icons below to find further useful information across our 2012 reports

IR Integrated report and financial statements 2012

SD Sustainable development report 2012

SSF Shaping our sustainable future

◀ **Syktyvkar, Russia**

Syktyvkar, our largest mill, located in the capital of the Komi Republic

The Mondi Group

Mondi is an international packaging and paper Group, with production operations across 30 countries and revenue of €5.8 billion in 2012. The Group's key operations are located in central Europe, Russia and South Africa and as at the end of 2012, Mondi employed 25,700 people.

Mondi Group is fully integrated across the packaging and paper value chain, from the growing of wood and the production of pulp and paper (packaging paper and uncoated fine paper), to the conversion of packaging paper into corrugated packaging, industrial bags, extrusion coatings and release liner. Mondi is also a supplier of innovative consumer packaging solutions, advanced films and hygiene products components.

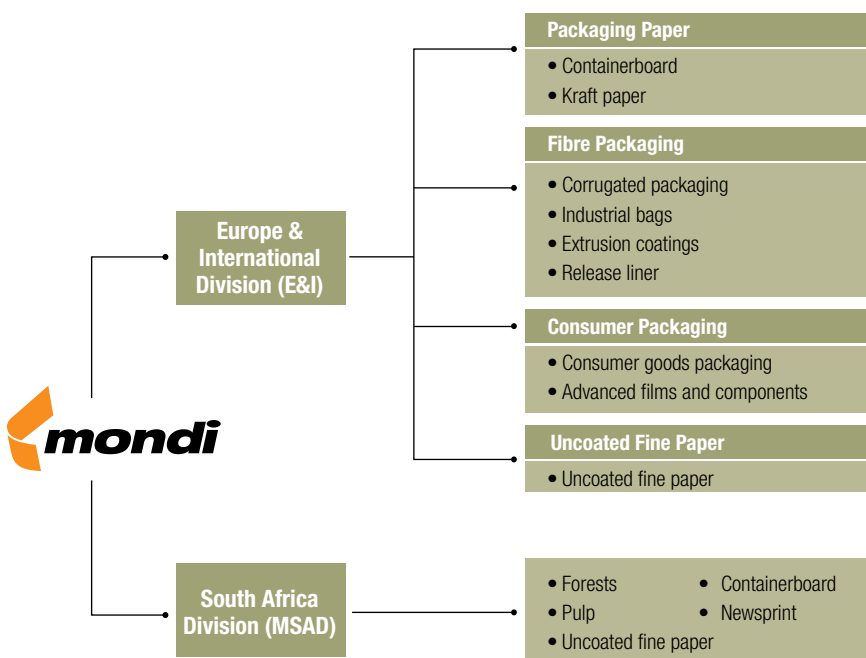
Mondi Group has a dual listed company structure, with a primary listing on the JSE Limited for Mondi Limited under the ticker code MND and a premium listing on the London Stock Exchange for Mondi plc, under the ticker code MNDI. The Group has been recognised for its sustainability through its inclusion in the FTSE4Good Global, European and UK Index Series (since 2008) and the JSE's Socially Responsible Investment (SRI) Index since 2007. The Group was also included in the Carbon Disclosure Project's (CDP) FTSE 350 Carbon Disclosure Leadership Index (CDLI) for the third year and in CDP's FTSE 350 Carbon Performance Leadership Index (CPLI) for the first time in 2012.

Throughout this report, all sustainable development-related information has been reported on according to the scope and boundary of Mondi's sustainable development reporting, and therefore excludes our recent acquisition of Nordenia and the Duropack operations in Germany and the Czech Republic from the 2012 data.

SD For the scope and boundary of our sustainable development reporting go to

www.mondigroup.com/sd12

Group structure



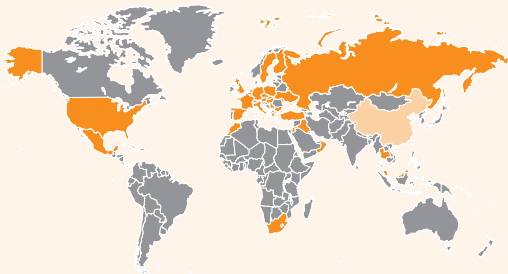
Group performance: delivering on our strategy

Mondi's purpose is to create solutions for our customers' success, delivering exceptional value for stakeholders in a sustainable manner. The Group targets a 13% return on capital employed (ROCE) through the cycle. To achieve this and create value for stakeholders, we pursue a four pillar strategy. Our clear and consistent strategic positioning demonstrates the required combination of focus and flexibility to deliver results across the business cycle.

Achieve leading market positions	<ul style="list-style-type: none"> • Focused on developing and maintaining leading market positions in our core packaging and uncoated fine paper markets with a specific focus on higher growth emerging markets • Our leading market positions place us in a unique position to better serve our customers and achieve continuous operational synergies 	
Maintain a high-quality, low-cost asset base	<ul style="list-style-type: none"> • Well invested, high-quality, low-cost asset base that continues to deliver superior returns through the cycle • High level of vertical integration and self-sufficiency along the paper-based value chain, reducing exposure to volatility of raw materials (wood, pulp and energy) • Selectively invest in production capacity enjoying sustainable cost advantages • Presence in certain emerging markets, such as eastern Europe, Russia and South Africa, in line with our strategy of focusing on low-cost, high-growth regions, especially relevant for our commodity products 	
Grow through customer focused development	<ul style="list-style-type: none"> • Develop products according to our customers' requirements • Increase our exposure to more value added, innovative and technologically advanced products • Follow our customers into high-growth emerging consumer markets 	
Continuous focus on performance	<ul style="list-style-type: none"> • Long-standing focus on operational performance and rigorous asset management targeting continuous improvement in productivity, efficiency and reliability of operations • Focus on the development of our people and our business in a sustainable manner 	

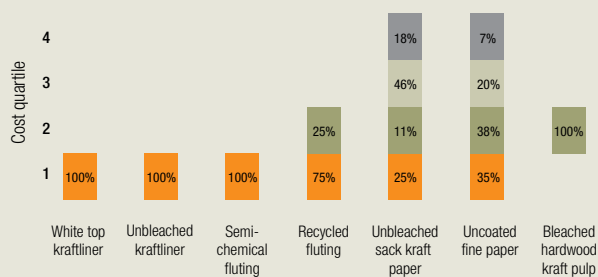
2012 highlights

Mondi's global footprint



- Acquisition of Nordenia represents a significant step in the development of a leading consumer packaging business
- Acquisition of two corrugated packaging operations in Germany and the Czech Republic reinforces Mondi's strong central European footprint in corrugated packaging

% of Mondi's capacity per grade in overall cost curve



- Acquisition of the remaining non-controlling interest in Mondi Świecie
- Acquisition of heat and energy operation at Mondi Świecie
- Approximately €300 million committed to energy related and debottlenecking projects
- 83% of upstream paper assets located in emerging markets offering clear and sustainable cost advantages

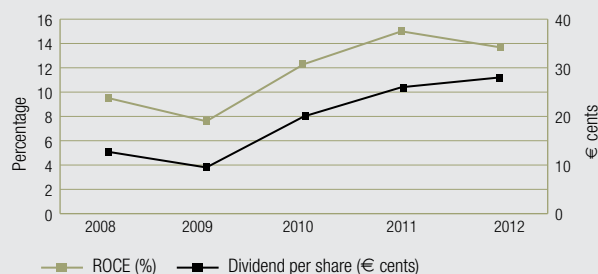
Green Range



Our Green Range product family was developed in response to customers' increasing environmental concerns and purchasing decisions

- Acquisition of Nordenia contributes significantly to developing products to meet customer needs
- New consumer packaging plant in Taicang, China under construction to support an existing global customer
- €70 million planned investment in a 155,000 tonne per annum bleached kraft paper machine in Štětí, Czech Republic

ROCE and dividend per share



- Production and efficiency records in numerous operations
- Sale of our 50% interest in Aylesford Newsprint
- Cost base reduced in absolute terms for past four years adjusted for acquisitions and disposals



◀ Ružomberok mill, Slovakia

Chairmen's statement



Cyril Ramaphosa

David Williams

Dear shareholder

2012 was another challenging year, with broader macroeconomic weakness continuing to impact business across the globe. High levels of sovereign debt, volatile exchange rates and relatively high unemployment levels in the US and euro area are all hampering economic recovery. The euro-zone debt crisis and the ongoing US fiscal challenges remain significant threats to the world economy. The associated contraction in economic activity, particularly in Europe, directly impacts Mondi's business in both western and emerging markets.

IR More details of the Group's performance are set out in the chief executive's review, the chief financial officer's review, the business review and the sustainable development review in this report

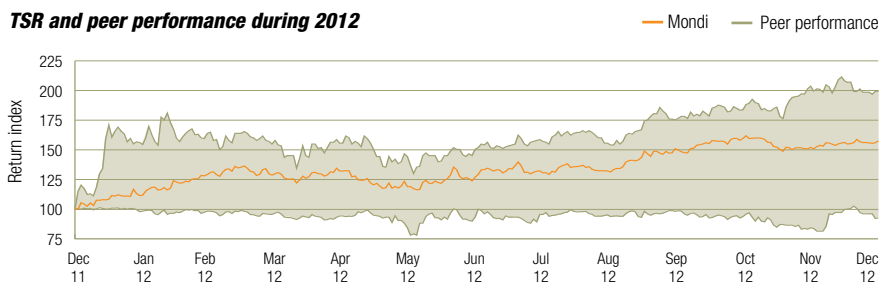
Against this backdrop, we are pleased with Mondi's performance in 2012, as the Group again demonstrated its ability to deliver solid results. Mondi's high-quality, well-invested assets and its focus on low-cost production continue to be major competitive advantages. Mondi delivered underlying operating profit of €568 million and achieved a return on capital employed of 13.7%. In addition, the significant progress that the Group achieved strategically made 2012 a memorable year, with €1.2 billion of acquisitions.

Growing shareholder value

Although 2012 was another demanding year, Mondi's strategic initiatives, strong operational performance, and financial discipline again delivered good results for shareholders with underlying operating profit of €568 million and basic underlying earnings per share of 69.6 euro cents per share.

The Boards continue to support Mondi's strategic direction, which is demonstrably creating and sustaining shareholder value, as evidenced by the Group's solid financial results and strong share price performance.

TSR and peer performance during 2012



Mondi is demonstrably creating and sustaining shareholder value

Chairmen's statement continued

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 Group's strong financial position, notwithstanding the significant debt-funded acquisitions during the year, and the Boards' stated objective to increase distributions to shareholders through the ordinary dividend, 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 19.1 euro cents per share (2011: 17.75 euro cents per share), payable on 16 May 2013 to shareholders on the register at 19 April 2013. Together with the interim dividend of 8.9 euro cents per share, paid on 18 September 2012, this amounts to a total dividend for the year of 28.0 euro cents per share. In 2011, the total dividend for the year was 26.0 euro cents per share. To shareholders on the South African registers of Mondi Limited and Mondi plc, an equivalent dividend of 90.44358 South African rand cents per share was paid on 18 September 2012 and, together with a final dividend of 225.16629 South African rand cents per share payable on 16 May 2013, the total dividend amounts to 315.60987 South African rand cents per share.

Creating sustainable value

Mondi is committed to creating sustainable value in the following ways:

- investing in the long-term growth and development of our business through innovation and excellence, and by delivering the products that best meet the needs of our customers and society;
- complying with legislation, regulation and striving to achieve best practice;
- creating and sustaining valuable and meaningful employment, recognising diversity and ingenuity amongst our people, and allowing them to develop to the best of their ability;
- preserving and enhancing the safety and well-being of our employees;
- maintaining the integrity of our forests, and contributing to the preservation of high conservation areas;
- endeavouring to minimise the impact of our operations on our neighbours; and
- contributing to the development of people and communities at and around our operations.

The Group's track record remains impressive in the sustainability arena. In 2012, Mondi was once again an advanced level reporter under the UN Global Compact (UNGC); and for reporting and performance by the Carbon Disclosure Project. Mondi was also a sector leader in the Forest Footprint Disclosure.

In November 2012 Mondi's ongoing commitment to sustainability including its environmental, risk and safety management systems, was commended when it was awarded:

- The WWF Environmental Paper Award for Transparency 2012; and Best Environmental Performance Paper Brands 2012;
- The Pulp and Paper International (PPI) awards for Environmental Strategy of the Year 2012 (Mondi Group); Managing Risk and Safety 2012 (Mondi SCP in Slovakia); and Efficiency Improvements of the Year 2012 (Mondi SCP in Slovakia).

We believe that the Group's ability to create sustainable value is fundamentally dependent on its commitment 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

Mondi's approach to integrated reporting

This year, the Mondi Group has made further progress in reporting in an holistic way. At the centre of Mondi's 2012 reporting is the Group's strategy and how the relationship between strategy and risk is managed to drive performance and protect the long-term value of the business. While we recognise that shareholders remain the primary audience of this report, we want to ensure that it is accessible to a broad range of stakeholders.

This report links financial and non-financial performance to provide a balanced perspective of the year's achievements. Relevant financial, environmental, social and governance issues are addressed to provide an holistic view of Mondi's performance in 2012 as well as the Group's strategy, risks and opportunities going forward.

In addition to our Sustainable development report, available online at www.mondigroup.com/sd12, which covers 2012 performance in more detail and has been developed in line with the Global Reporting Initiative and the UNGC, we are introducing a new printed report entitled *Shaping our sustainable future* www.mondigroup.com/ssf12 that describes Mondi's approach to global sustainable development issues and debates. This report uses the World Business Council for Sustainable Development's *Vision 2050* pathways as its framework.

IR A detailed account of corporate governance within the Group may be found on pages 66 – 79

committed to the principles of transparency, integrity and accountability. The material information in this report is also audited or assured by independent auditors Deloitte and ERM CVS respectively.

Acknowledgement of Mondi's people

The wealth of talent in Mondi's teams across the globe has enabled the Group to deliver on its goals despite challenging conditions. As Chairmen, it is heartening to know that no decision is taken lightly and that people at all levels of the business are striving to live Mondi's values as they act with integrity and a passion for performance, whilst developing a working environment where employees feel appreciated. We thank all Mondi's 25,700 employees for the contribution they continue to make to the Group's success and we welcome the teams from the recent acquisitions to our business.

In an era where uncertainty prevails, the stability our executive team provides, under the leadership of David Hathorn, is invaluable. We have great confidence in the executive team, and their ability to drive performance, manage risk and seek out sound, value enhancing business opportunities is exceptional.

Strategic summary and outlook

Mondi's clear strategic path, its strong leadership and focus on performance has enabled the Group to deliver a solid performance in a challenging macroeconomic environment. The important acquisitions made during the past year will strengthen the Group's exposure to high-growth product segments and complement its strategic positioning to continue to deliver value to shareholders into the future.

Cyril Ramaphosa

Joint chairman

David Williams

Joint chairman

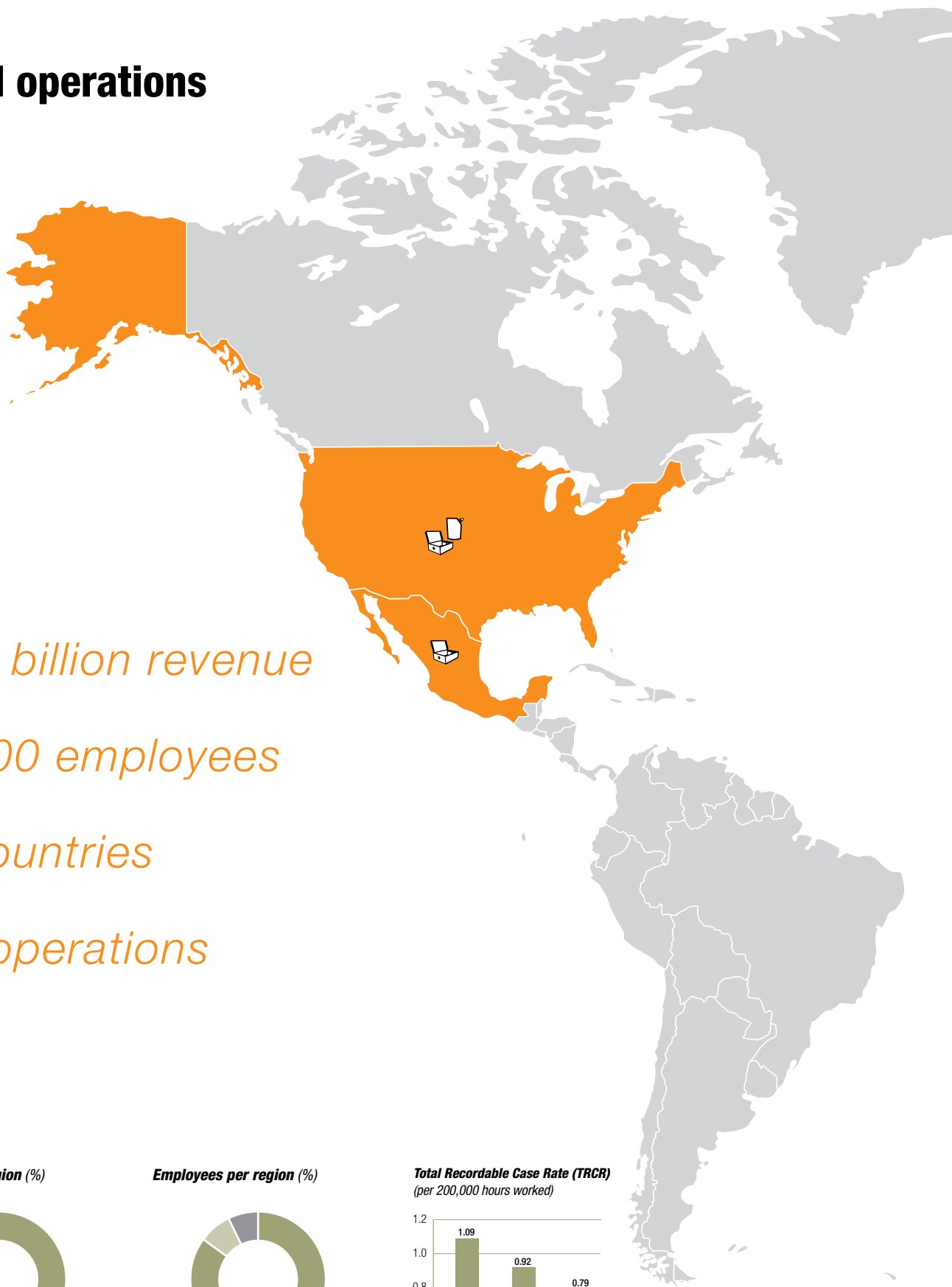
In January 2013 Cyril Ramaphosa advised that he will be stepping down at the conclusion of the Group's Annual General Meetings on 3 May 2013, following his election as deputy president of South Africa's ruling party, the African National Congress, in December 2012. Cyril has reviewed his business commitments and has advised Mondi that he wishes to resign from his positions as joint chairman and as a non-executive director at the Annual General Meetings of Mondi Limited and Mondi plc on 3 May 2013.

On behalf of the Boards, I would like to thank Cyril for his significant contribution to the Mondi Group. He has helped guide Mondi through its initial years of listing and played an important role in providing constructive counsel particularly on issues specific to the South African business environment.

David Williams

Joint chairman

Global operations



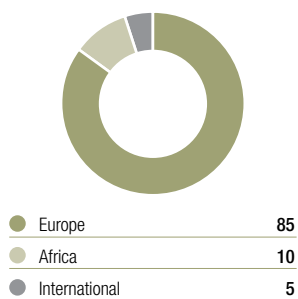
€5.8 billion revenue

25,700 employees

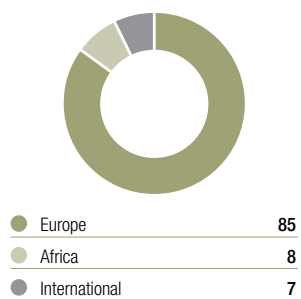
30 countries

102 operations

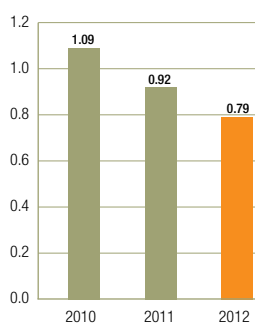
Turnover per region (%)

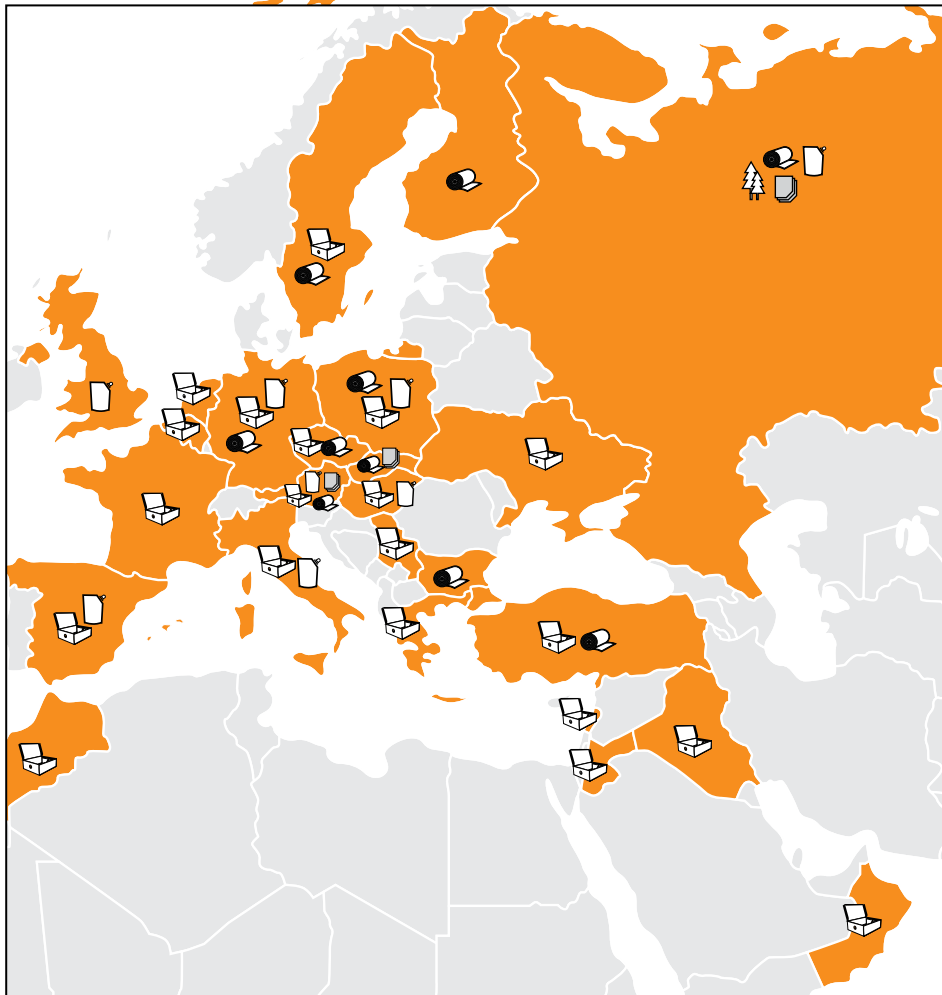


Employees per region (%)



Total Recordable Case Rate (TRCR)
(per 200,000 hours worked)





Key to operations



Forests



Packaging Paper



Fibre Packaging



Consumer Packaging



Uncoated Fine Paper

● Mondi Group operations

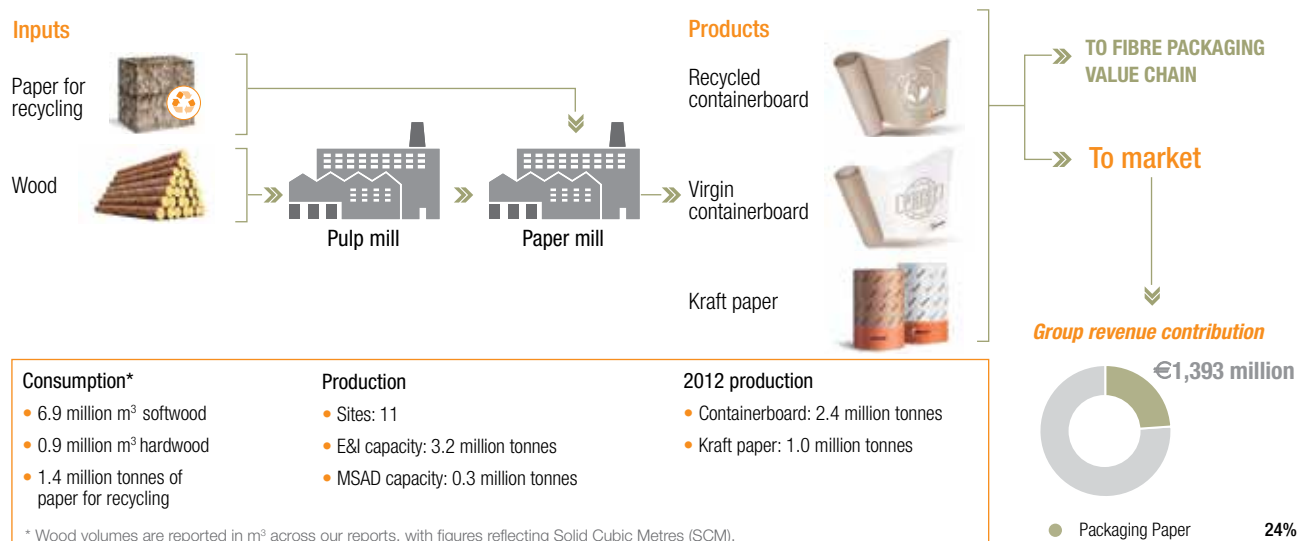
● Plant in China under construction, expected to commence operations towards the end of 2013

Integrated value chain and products

Mondi manufactures a full range of packaging and paper products to meet customer demands. Our customer focus, experience and ongoing research deliver proactive, high-quality and cost-competitive solutions to meet our customers' requirements.

For more details of our product certifications, as well as additional product information please see www.mondigroup.com/products

Packaging Paper



Products



Containerboard

Mondi is an international supplier of virgin and recycled containerboard. Our ProVantage range includes lightweight recycled containerboard, high-performance semi-chemical fluting and 'Appearance', our white-top kraftliner and brown kraftliner. Our paper grades meet stringent health and safety standards for food packaging and are used in the food, automotive, household, cosmetics, industrial paper and packaging industries.



Kraft paper

Mondi's Advantage range consists of high-quality sack kraft paper, speciality kraft paper as well as speciality pulp. We combine customer requirements with extensive research and development to produce innovative, tailor-made packaging solutions.

Fibre Packaging

Inputs

Recycled containerboard



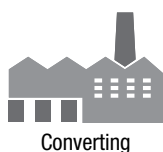
Virgin containerboard



Kraft paper



Polymers and other substrates (films, nonwovens, aluminium foil)



Converting

Products

Corrugated packaging



Industrial bags



Extrusion coatings



Release liner



To market

Group revenue contribution

€1,785 million



Fibre Packaging

31%

Production

- Sites: 69

2012 production

- Corrugated packaging: 1,213 million m²
- Industrial bags: 3,829 million units
- Extrusion coatings and release liner: 3,352 million m²

Products



Corrugated packaging

Mondi's corrugated packaging portfolio consists of the ECO, EASY and SMART product lines, providing efficient material usage, ease of handling, and intelligent features. Mondi supplies the automotive, food, household, cosmetics, toiletries and hygiene industries.



Industrial bags

Mondi offers a range of industrial bags, optimised for high-speed filling, suitable for food contact, ensuring product security and adapted for easy handling. Our products are used in the building and construction, food, animal feed, farming and agriculture, chemical, medical and pharmaceutical, and automotive industries.



Extrusion coatings

Mondi's advanced extrusion coating technologies offer versatile biodegradable and sustainable packaging options. These products offer high-quality, cost-effective and energy-efficient technical solutions to the automotive, building, food, industrial paper and packaging, medical and pharmaceutical industries as well as imaging sectors.



Release liner

Mondi is a leading global supplier of silicone-coated and speciality release liners, designed for the pressure-sensitive adhesives industry. These products offer high-quality, competitive solutions as well as a reliable supply chain for applications including graphic arts, medical, hygiene, fibre composites, tapes and labels.

Integrated value chain and products continued

Consumer Packaging

Inputs

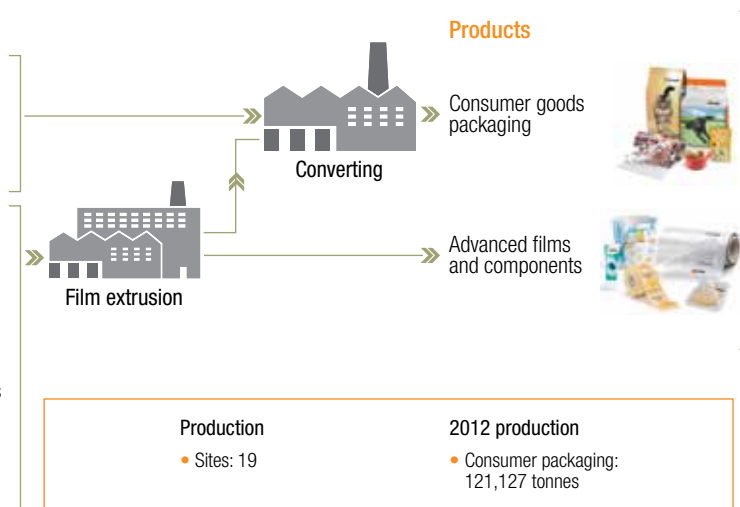


Films, paper, aluminium foil

Resins



Resins are generally sourced externally. Where the film requires specific characteristics, the resins are compounded inhouse using unique recipes



Group revenue contribution

€498 million



Consumer Packaging

9%

Products



Consumer goods packaging

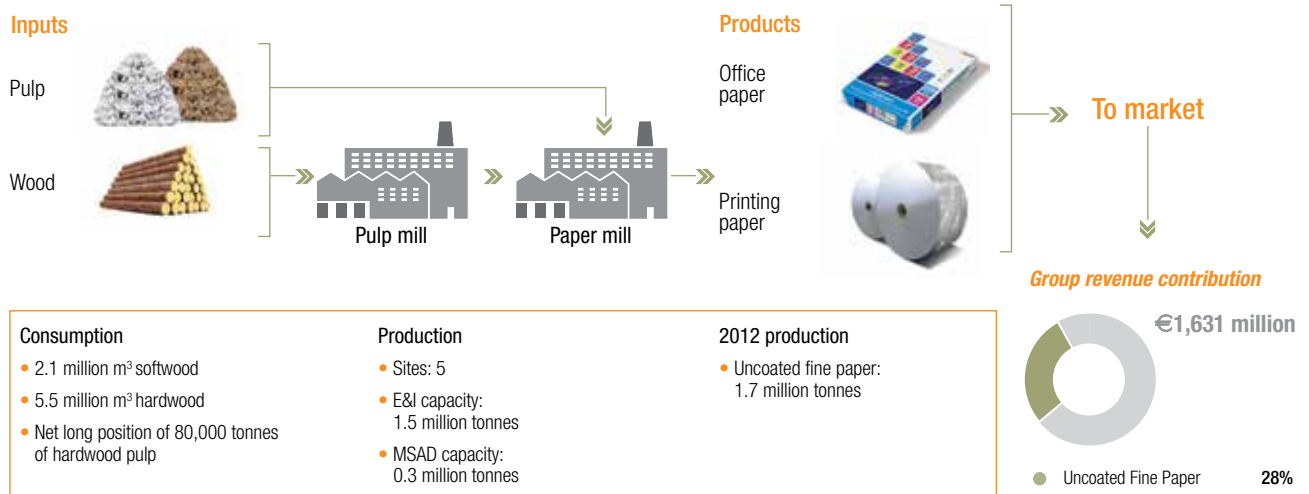
Our consumer packaging product portfolio comprises attractive and convenient solutions for pet food, food, personal and home care as well as other industrial applications. This range of plastic- and paper-based materials and converted consumer packaging include stand-up pouches, pre-made plastic and paper-based bags, laminates and printed films, all of which meet stringent health and safety standards for food packaging.



Advanced films and components

Mondi develops and produces films and film-based solutions for a variety of industries, including innovative hygiene product components such as elastic laminates, elastic films and frontal tapes for diapers and siliconised films for femcare packaging, label films, laminating films for flexible packaging applications, high barrier films and surface protection films.

Uncoated Fine Paper



Products



Uncoated fine paper

Within the uncoated fine paper sector, Mondi's high-quality papers are used in offices and for professional offset printing, HP Indigo or high-speed inkjet printing presses. Our uncoated fine paper brands are all part of Mondi's Green Range, developed in response to customer demand for environmentally responsible products.



◀ Štětí, Czech Republic
Industrial bags produced at our Štětí mill

Chief executive's review



David Hathorn

Mondi's 2012 performance

Mondi delivered a solid financial performance in what remains an uncertain economic environment. While the early part of the year was particularly challenging, trading picked up as the year progressed, culminating in a strong final quarter.

In addition, Mondi has continued to make significant progress with growing its packaging interests. The share of the Group's capital employed in packaging businesses, with typically higher structural growth rates, has increased from 54% to 67% over the last year.

A difficult first quarter was characterised by a continuation of the weak order books seen towards the end of 2011, with trading picking up as the year progressed. Sales volumes recovered into the second quarter and this, in turn, saw some price recovery in certain of the Group's major grades going into the second half of the year. The third quarter was impacted by the traditional European summer slowdown in trading, but a strong finish to the year, with good volumes and reasonable price levels in Europe, meant the Group was able to deliver full year underlying operating profit of €568 million, 9% down on the very strong prior year result. It is pleasing to see that the progress already made in integrating our recent acquisitions is exemplified by the fact we have increased our estimate of expected synergies by 33%, to €30 million per annum within two years.

Fundamentals for the Group's core segments remain sound, although recently announced capacity additions by various manufacturers in selected paper grades are a concern, exacerbated by the prevailing demand softness as Europe remains affected by the macroeconomic slowdown. On the packaging side, fundamentals for growth in the medium term remain firmly in place with only the kraft paper/industrial bags value chain in western Europe suffering some secular demand decline, offset by strong export markets.

Continued strong profitability resulted in a return on capital employed of 13.7%, once again above our through-the-cycle target of 13%. The Group continued to be strongly cash generative with cash generated from operations of €845 million.

Net debt at 31 December 2012 was €1,864 million, an increase of €1,033 million from 31 December 2011. The increase is attributable to the €1.2 billion of strategic acquisitions completed during the year.

Continued strong profitability resulted in a ROCE of 13.7%

Chief executive's review continued

At the underlying earnings per share level, results were down only 3% on the comparable prior year figure, supported by lower interest charges and a reduction in the non-controlling interest charge, primarily due to the acquisition of the remaining minority interest in Mondi Świecie in the first half of the year. This strong performance bears testament not only to the strength of our strategic positioning, but also the unrelenting focus on cost management and strong operating performance achieved across the Group.

We were again able to reduce fixed costs in absolute terms, excluding the effects of recent acquisitions, while production records were achieved at a number of our major facilities.

Our continued strong cash generation and underlying earnings per share of 69.6 euro cents per share has resulted in the directors recommending a final dividend of 19.1 euro cents per share, bringing the total dividend to 28.0 euro cents per share for the year, an increase of 8% on 2011.

Sustained delivery on Group strategy, creating long-term value

During the year good progress was made in the ongoing process of shifting Mondi's portfolio to higher growth products. This included €1.2 billion of acquisitions in the growing corrugated packaging and consumer packaging value chains and the disposal of the 50% interest in Aylesford Newsprint, which operates in the structurally challenged newsprint sector.

Key acquisitions and disposals included:

Packaging Paper

- the acquisition of the remaining minority interest in Mondi Świecie;
- Mondi Świecie acquired a combined heat and power generating operation, providing the bulk of its electricity requirements and all of its heat and steam needs;

Consumer Packaging

- the acquisition of a 99.93% interest in Nordenia;

Fibre Packaging

- the acquisition of Duropack's two corrugated packaging operations in Germany and the Czech Republic; and

Newsprint

- disposal of interest in Aylesford Newsprint.

We also made progress with the restructuring of our Industrial Bags business to ensure the profitability of the operations in Europe.

Following the completion of the Nordenia acquisition, the Group's management and reporting structures were reorganised. The Europe & International Division has been restructured into four business units: Packaging Paper, Fibre Packaging, Consumer Packaging and Uncoated Fine Paper.

These steps build on our position as a leading international packaging and paper Group with a strong platform for continued growth in emerging markets.

Nordenia is an international supplier of innovative consumer packaging solutions and hygiene components. What benefits does this acquisition offer Mondi?

- High level of overlap between Nordenia and Mondi's consumer packaging business
- Nordenia enjoys a strong competitive advantage through its proprietary technology, global presence and a proven track record of innovation and growth
- International presence with 12 fully invested operating facilities located in 7 countries across Europe, North America and Asia; plant in China under construction
- Operations in central Europe, Russia and Asia provide access to low-cost production and high-growth emerging markets
- Blue chip customer base and relationships of 19 years on average with top 10 customers
- Strong, stable management with proven track record of successfully developing and expanding Nordenia's operations
- Over 90% of revenues in fast moving consumer goods, providing resilience in a downturn

What does Mondi expect from the Nordenia investment?

- Development of a leading consumer packaging business
- Opportunity to build on deep, long-term customer relationships across both businesses
- Complementary geographic fit and established platform in high-growth emerging markets
- Material cost synergies in addition to significant revenue opportunities

IR Our strategic framework and key focus areas are on page 2

1. Leading market positions

Our focus is on developing and maintaining leading positions in packaging and uncoated fine paper, particularly in high-growth markets. In 2012 we continued to make progress in achieving what we believe is the right product and geographic mix to ensure sustained profitability. The Group benefits from our exposure to faster growing emerging markets such as eastern Europe, Russia and South Africa, with 57% of revenue generated from operations in these geographical areas.

Mondi's leading positions in emerging markets offer cost benefits and operational synergies with existing businesses, giving a clear strategic advantage over many of its competitors. The packaging businesses also enjoy uniquely strong market positions and attractive growth rates in both developed and emerging markets.

2. High-quality, low-cost asset base

Mondi's high-quality, low-cost asset base is a fundamental strategic strength and we therefore selectively invest in production capacity that brings us sustainable cost advantages. To ensure that our asset base remains well invested, we incurred capital expenditure to the value of €298 million in 2012, €35 million higher than the prior year. The capital expenditure to depreciation ratio was 86% including expenditure on a number of the Group's strategic energy projects.

The approved energy related investments totalling approximately €140 million announced in early 2012 included a bark boiler at Syktyvkar in Russia, a steam turbine and recovery boiler economiser at Stambolijski, Bulgaria, a new recovery boiler at Frantschach, Austria and a new steam turbine at the Richards Bay mill in South Africa. The benefits of these investments, mainly in the form of reduced energy costs, improved efficiencies and energy self-sufficiency, are expected to be realised from the end of 2013 as these projects reach completion. In addition, the decision has recently been taken to commence the €30 million pulp dryer project in Syktyvkar. The project was initially announced in early 2012 but put on hold pending clarification of various technical parameters, which have since been resolved.

As announced early in 2012 various additional energy related projects, amounting to approximately €250 million, were under consideration. In this regard, the Boards have since approved a further €128 million strategic energy investment at the 51% held Ružomberok mill. Further options remain under evaluation.

The Ružomberok investment, including a new recovery boiler at the mill, will increase pulp production, reduce the mill's environmental footprint and improve the overall cost position. The project will also include improvements in chemical recovery and green energy and heat production during the pulp production process. Some of the project benefits also result from avoiding otherwise essential stay-in-business capital expenditure. The project is expected to be completed in the fourth quarter of 2014, delivering an after-tax internal rate of return in excess of 40%.

The Boards also approved a €70 million project in the Štětí kraft paper mill which will enable the mill to integrate the remaining open market pulp production on site by producing additional volumes of bleached kraft paper and will provide growth

Chief executive's review continued

opportunities for the kraft business. The project is expected to be completed in the latter part of 2014 delivering an after-tax internal rate of return of around 20%.

Including the announced strategic projects, capital expenditure is expected to be approximately 125% of the Group's depreciation charge on average over the next two years.

3. Customer focused development

The successful Nordenia acquisition complements and strengthens Mondi's existing consumer packaging business with a complementary product portfolio which positions the Group well to develop a leading consumer packaging business, with an enlarged geographic footprint and strong competitive advantages.


Building on long standing relationships, know-how and the combined production base, working in close co-operation with its customers, Mondi is able to develop markets and value added technologically advanced products and enter high-growth emerging markets in consumer packaging.

The Consumer Packaging business has a strong product pipeline in development. The new plant in China, supporting an existing global customer, is expected to commence operations towards the end of 2013, with full capacity being reached in 2015.

Mondi's Green Range label was developed in response to customer demand for environmentally preferable purchasing and has since been extended to smart packaging products including sack and speciality kraft papers, containerboard, corrugated packaging, industrial bags, extrusion coated products and consumer packaging.

CASE STUDY

**Driving innovation to become
'as green as it gets'**

See the full case study online at
 www.mondigroup.com/sd12-green-innovation



◀ **Korneuburg, Austria**

*Labelling a reel of printed stand up pouches
prior to slitting*

4. Focus on performance

Our focus on performance is driven by continuous productivity improvement and cost reduction, delivered through business excellence programmes and rigorous asset management. We are very pleased that fixed cost increases have remained within inflation in all the countries we operate in. This achievement is particularly pertinent in South Africa where electricity and labour price increases remain well above inflation.

Double digit productivity gains were achieved at many of our key operations. The responsible and efficient procurement of our most critical raw materials, our increasing energy self-sufficiency and our operational efficiencies continue to provide much of the drive behind this core part of our strategy.

IR More information about our material issues can be found in the sustainable development review on pages 31 – 43 and in **SSF** on pages 2 – 3

Mondi's strategic objectives and commitments going forward

The strategic progress we have made in 2012 provides exciting opportunities for the Group going forward. The progress we have made in increasing the Group's exposure to higher growth packaging businesses with clear competitive advantages provides a strong platform for continued success in 2013 and beyond.

Although Mondi will always be open to growth opportunities that support our strategy, we are committed to continued discipline around acquisitions and expansionary capital expenditure.

Linking strategy to material issues and managing risk

Our strategy as outlined above provides the framework for the Group's success. Risk is an inherent part of any business and identifying and managing risk is also critical to our success. Mondi pro-actively manages risks through a flexible and dynamic approach to changing conditions and a deliberate investment strategy to mitigate regional and country specific risks to limits considered acceptable by our Boards.

In addition to Mondi's clear strategy and well developed risk management system, in the context of our sustainability we have considered issues that we regard as material to Mondi's business. The sustainability of the Group is dependent on its ability to operate in a responsible, sustainable manner within ever-changing macro and microeconomic, environmental, social and governance contexts. Mondi's Group-wide risk management framework has been designed to address these material issues.

IR We report in more detail on our risks on pages 57 – 61

Maintaining the Group's socioeconomic licence to trade is a strategic imperative. This encompasses continued access to credible sources of fibre, protection of High Conservation Value (HCV) areas and bio-diversity, eco-efficiency of products throughout their lifecycle and the Group's carbon and energy footprint. Mondi uses biomass energy sources such as black liquor as an alternative to fossil fuels at all of its mills. Some 58% of Mondi's fuel consumption for material operations comes from biomass and a number of operations are completely energy self-sufficient.

The Group is pleased to have maintained Forest Stewardship Council™ (FSC™) certification of 100% of all its owned, leased and managed forests. The commitment to no wood being procured from controversial sources was also maintained. In addition all mills (with the exception of Stambolijski – which we aim to certify during 2013) are being certified to Chain-of-Custody (CoC) standards from FSC, Programme for the Endorsement of Forest Certification™ (PEFC™) or a credible alternative.

Chief executive's review continued

Focusing on our people

People at the heart of our success

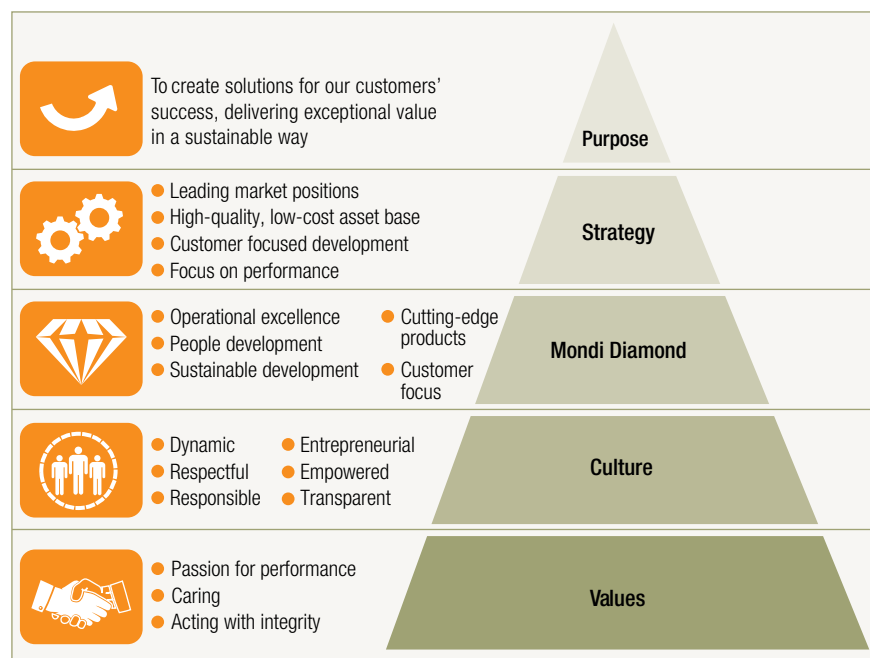
Mondi's performance in 2012 demonstrates the benefit of investing in an extremely talented workforce. Our people have remained diligent and committed to delivering on our strategic objectives despite the challenges we have faced as a business.

Our employees and contractors work in potentially dangerous environments where hazards are ever-present and must be managed daily through a risk-based approach which underpins our safety and health programmes. Mondi's objective is a zero harm environment. It is unacceptable that we continued to have fatalities at our operations. Going forward, a priority focus area is the prevention of high risk, low probability incidents which can lead to fatalities, in an effort to become fatality free in our operations.

I believe that engaging and inspiring our people at all levels of the organisation is critical to securing a sustainable future for the Group. We use the Mondi Way to visualise how our purpose, strategy and operational framework (called the Mondi Diamond) fit together, all built on the foundation of our shared culture and values.

This simple yet effective approach is in essence an integrated strategic roadmap that guides the way in which we all work. It facilitates an understanding of how each and every Mondi employee contributes to delivering on our strategy in a sustainable way through their daily work and objectives.

The Mondi Way



*I believe that
engaging
and inspiring
our people
is critical to
securing a
sustainable
future for the
Group*

Encouraging progress has been made with developing an open and honest culture to inspire and motivate our teams so they can continue to deliver value. Only by being a fair and caring employer, a reliable and responsible citizen and an honest and ethical company, is Mondi able to operate as an effective and profitable business in the long term, ultimately creating sustained value for our stakeholders.

During the course of the year I visited a number of our operations and I am always proud of the passion and perseverance of the 25,700 people that join me in making up the Mondi team. On behalf of the Group's executive committee, I extend my heartfelt thanks to all our employees and I look forward to continuing our journey together in 2013.

I would like to thank all the Mondi people for their hard work and contribution to our Group and my fellow executive committee members for their diligence and insightfulness in what has been an extremely demanding yet exciting year for the Mondi Group.

Outlook

Mondi's focus in the near term will be the integration and optimisation of the recent acquisitions and successful delivery of the significant capital investment projects initiated over the course of the past year. It is pleasing to see the progress that has already been made in integrating the recent acquisitions, exemplified by the fact that the Group has revised upwards by 33% its estimate of expected synergies to €30 million per annum within two years.

Fundamentals for Mondi's core segments remain sound, although recently announced capacity additions by various manufacturers in selected paper grades are a concern, exacerbated by the prevailing demand softness as Europe remains affected by the macroeconomic slowdown. However, with the strong finish to the year, coupled with the expected contribution from the recent acquisitions, we remain confident of making progress in the year ahead.

David Hathorn

Chief executive officer



◀ Świecie, Poland

A fully automated high bay warehouse of stacked reels at our mill

Chief financial officer's review

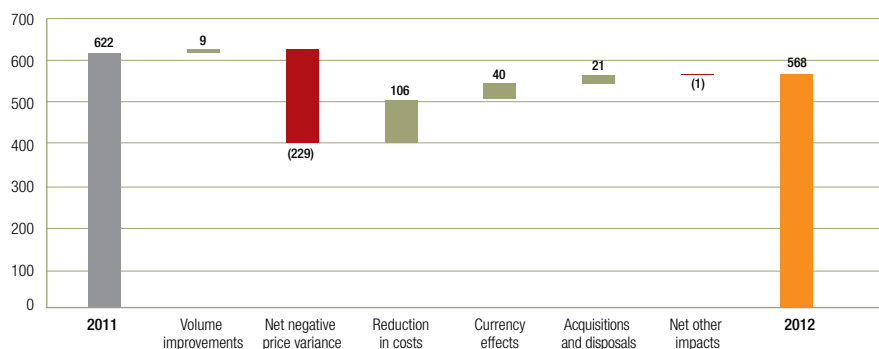


Andrew King

Overview of results

Underlying operating profit of €568 million was 9% below that of the previous year, mainly as a result of lower average selling prices offset by lower input costs and the benefits of the Group's continuing focus on cost management.

Underlying operating profit development (€ million)



€845 million
 cash
 generated
 from
 operations

The Group continued to be strongly cash generative with cash generated from operations of €845 million. Working capital levels were maintained within the Group's targeted level of 10 – 12% of turnover, closing the year (based on the annualised sales of Nordenia) at 11.8%. During the year, capital expenditure amounted to €298 million.

Underlying earnings per share were down 3% on the comparable prior year figure, supported by lower interest charges and a reduction in the non-controlling interest charge, primarily due to the acquisition of the remaining minority interest in Mondi Świecie in the first half of the year.

The Group is proposing to pay a final dividend of 19.1 euro cents per share, bringing the total dividend for the year to 28.0 euro cents per share, an increase of 8% on 2011.

Chief financial officer's review continued

Change in operating segments

Following the completion of the Nordenia acquisition and disposal of Aylesford Newsprint, the Group has reorganised its management and reporting structure. The Europe & International Division has been restructured into four sub-divisions, divided largely into upstream and downstream businesses with a clear separation between packaging and uncoated fine paper: Packaging Paper, Fibre Packaging, Consumer Packaging and Uncoated Fine Paper. The remaining Newsprint business, Mondi Shanduka Newsprint, has been incorporated into the South Africa Division. Europe & International contributed €538 million to underlying operating profit and the South Africa Division €68 million. Corporate costs remained at similar levels to the previous year.

IR The segment reporting, set out in note 2 on page 118 of the annual financial statements, has been restated to reflect the revised reporting structure

Reconciliation of underlying profit to reported profit

€ million	2012	2011
Underlying profit	371	410
Special items	(91)	(55)
Tax effect of special items	(1)	2
Discontinued operation	–	43
Profit for the year	279	400

Special items

Special items for the year, giving rise to a net charge of €91 million before tax, include the following:

- loss of €70 million on disposal of Aylesford Newsprint;
- transaction costs of €11 million attributable to the Nordenia acquisition;
- restructuring activities and asset impairment in Fibre Packaging amounting to €21 million;
- profit of €6 million on sale of land in South Africa Division; and
- €5 million gain on settlement of an insurance claim.

IR Further detail is provided in note 5 of the annual financial statements pages 127 – 128

Input costs

Wood, paper for recycling and pulp comprise approximately one third of the input costs of the Group.

Wood costs decreased on average for both hardwood and softwood (1% and 5% respectively) versus the prior year. On average, benchmark European paper for recycling prices in 2012 were around 16% lower than in 2011 with an increase in the early part of the year followed by a significant drop off in the second half of the year. Current paper for recycling prices are at their lowest levels since March 2010.

Average benchmark euro denominated pulp prices were 8% lower for softwood pulp and largely unchanged for hardwood pulp versus 2011. Softwood pulp prices continued to decline over the course of the year whilst average hardwood pulp prices were 6% higher in the second half of 2012 than the first half.

Energy cost increases for the year were significant, with oil increasing by 7%, gas by 12% and coal and power by 17% on average. This highlights the importance of the Group's efforts to increase both energy efficiency and energy self-sufficiency.

Mondi's well established and relentless pursuit of cost savings initiatives bore significant benefits across the value chain. These initiatives enabled the Group to realise significant savings on input costs and fixed cost increases were kept well within inflation.

Currencies

The weaker South African rand and a stronger Polish zloty and US dollar against the euro provided a net positive impact to the Group. Positive translational and transaction gains were realised in Packaging Paper, Fibre Packaging and the South Africa Division. Exchange rate volatility was more muted during the year with most currencies trading within a relatively narrow range against the euro.

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% – consistent with that of 2011. The low tax rate continues to be a result of 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.



Zeltweg, Austria ►
*Inventory check at our Austrian
coatings operation*

Chief financial officer's review continued

Non-controlling interests

Earnings attributable to holders of non-controlling interests declined significantly from €70 million in the prior year to €35 million, primarily as a result of the acquisition of the non-controlling interest in Mondi Świecie in the second quarter of 2012.

Cash flow

Despite the challenging economic environment, EBITDA from continuing operations of €923 million was only 4% lower than in 2011. The strong cash generation reflects the contribution in the fourth quarter from the acquisition of Nordenia and the successful profit improvement and cost containment initiatives throughout the Group.

Mondi generated €845 million of cash from operations (2011: €917 million) after taking into account a net increase in working capital of €80 million. The increase in working capital includes the settlement of a number of short-term obligations recognised as part of the acquisition of Nordenia as well as the cancellation of the factoring arrangements that were in place prior to the acquisition.

The strong cash flow generation, supplemented by additional borrowings raised during the year, were applied to fund the Group's capital expenditure of €298 million, its strategic acquisitions and distributions to shareholders.

Capital investment programme

Capital expenditure of €298 million was €35 million higher than the prior year. The capital expenditure to depreciation ratio was 86% including expenditure on a number of the Group's strategic energy projects.

In early 2012, Mondi announced that it had approved various energy related investments totalling approximately €140 million. The benefits of these investments, mainly in the form of reduced energy costs, improved efficiencies and energy self-sufficiency are expected to be realised from the end of 2013 as these projects reach completion.


As announced at that time a number of additional energy related projects, amounting to approximately €250 million, were under consideration. In this regard, the Boards have since approved a further €128 million strategic energy investment at the 51% held Ružomberok mill in Slovakia. The project is expected to be completed in the fourth quarter of 2014, delivering an after-tax internal rate of return in excess of 40%.

The Boards also approved a €70 million project in the Štětí kraft paper mill which is expected to be completed in the latter part of 2014, delivering an after-tax internal rate of return of around 20%.

Including the announced strategic projects, capital expenditure is expected to be approximately 125% of the Group's depreciation charge on average over the next two years.

CASE STUDY

New steam turbine for Richards Bay mill in South Africa

See the full case study online at
 www.mondigroup.com/sd12-richards-bay-steam-turbine



Overview

Performance

Governance

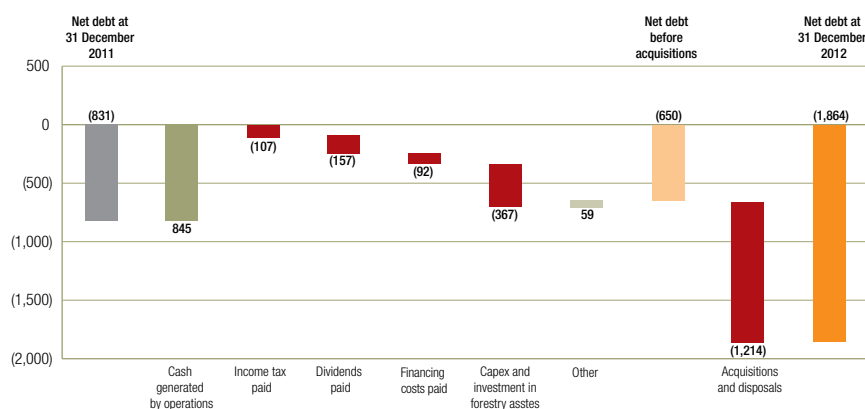
Financial position

		2012	2011
Capital employed	€ million	4,740	3,866
ROCE	%	13.7	15.0
Shareholders' funds	€ million	2,572	2,586
Return on shareholders' funds	%	13.1	13.1
Net debt	€ million	1,864	831
Gearing (Net debt/capital employed)	%	39.3	21.5
Net debt/EBITDA	times	2.0	0.8
Working capital	€ million	761	575

Treasury and borrowings

Net debt at 31 December 2012 was €1,864 million, an increase of €1,033 million from 31 December 2011. The increase is attributable to the €1.2 billion of strategic acquisitions completed during the year. Excluding the effects of acquisitions, net debt reduced by €180 million. The acquisitions were financed by the proceeds from an eight year 3.375% €500 million Eurobond and from existing borrowing facilities.

Movement in net debt (€ million)



Gearing increased to 39.3% at the end of 2012, up from 21.5% at the end of 2011, and the net debt to 12 month trailing EBITDA ratio was 2.0, well within the Group's key financial covenant requirements of 3.5 times.

Finance charges of €107 million were similar to the previous year (€111 million) due to a lower effective average interest rate offset by the increased net debt. The majority of the increase in the Group's net debt occurred in the last quarter of the year as a

Chief financial officer's review continued

consequence of the acquisitions of Nordenia and the corrugated packaging operations of Duropack in Germany and the Czech Republic. The debt assumed in the Nordenia acquisition included a high yield bond, which was recognised on acquisition at its fair market value, with the premium over book value amortised over the remaining term of the bond. As a consequence, the effective interest rate recognised in the financial statements approximates the Group's average borrowing rate, well below the 9.75% coupon applicable to that bond.

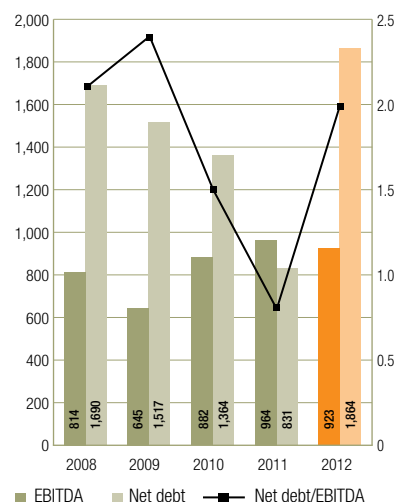
Mondi's public credit ratings, first issued in March 2010, were reaffirmed during the year at BBB- from Standard and Poor's and Baa3 from Moody's Investors Service.

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 (EMTN) programme under which the €500 million, seven year bond was issued in March 2010 was renewed. In September 2012 Mondi successfully launched an eight year, 3.375% fixed coupon, €500 million bond maturing in 2020 under the same programme.

At the end of the year the Group's committed debt facilities amounted to €2.6 billion with €762 million undrawn, which provides significant liquidity to meet Mondi's short and medium-term funding requirements. Drawn committed facilities maturing in 2013 amount to €191 million.

The weighted average maturity of the Eurobonds and committed debt facilities increased to 4.8 years as at 31 December 2012 compared to 4.3 years a year earlier.

EBITDA and net debt (€ million)



Shareholder returns

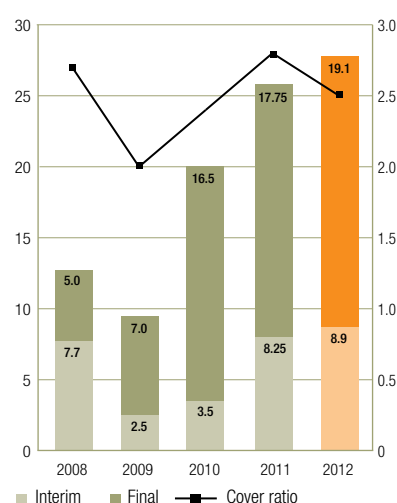
The return on capital employed, based on underlying earnings and average capital employed, of 13.7% exceeds the Group's target of 13% across the cycle and reflects the Group's relentless focus on cost containment and operational excellence in an uncertain trading environment.

The Boards' aim is to offer shareholders long-term dividend growth within a targeted dividend cover range of two to three times over the business cycle. Given the Group's strong financial position, notwithstanding the significant debt-funded acquisitions during the year, and the Boards' stated objective to increase distributions to shareholders through the ordinary dividend, the directors have recommended an 8% increase in the dividend to 28.0 euro cents per share, while remaining within the Group's targeted cover range.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the annual financial statements. In addition, the risk report sets out the most significant risks facing the Group and the management and mitigation thereof.

Dividends paid and proposed (€ cents per share)



Overview

Performance

Governance

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 operation 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 in note 21 of the annual financial statements. 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 €762 million of undrawn committed debt facilities as at 31 December 2012 which should provide sufficient liquidity 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 2013 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.

Andrew King

Chief financial officer



◀ Syktyvkar, Russia

*During 2012 Mondi planted some
2.4 million seedlings in Russia*

Sustainable development review

At Mondi, we aim to deliver exceptional value to our customers by developing products for their success through the transformation of responsibly-sourced raw materials into innovative product solutions – solutions that meet our customers' needs in a responsible, cost-effective and sustainable way. Mondi recognises the need to integrate sound principles governing safety, business conduct, social, environmental and economic activities into business practices and decision-making. We comply with the regulations, legislation and permitting requirements of all countries and regions in which we operate.

SD A full list of our five year sustainability commitments and our Group performance against key performance indicators can be found at www.mondigroup.com/sd12

Our performance shows the progress we have made in achieving our sustainability commitments to date

IR See our risk management and internal control section on pages 57 – 61

Sustainable development is integral to the success of our business. Our sustainability commitments have been considered in light of our risk management process, our material issues and broad stakeholder engagement. In 2011, we developed and revised our five year sustainability commitments. These commitments have helped organise, direct, monitor and improve our sustainable development efforts throughout 2012.

Identifying and managing risks is fundamental to every aspect of our business. Our Group-wide risk management framework helps us identify risks on at least an annual basis, and ensure that mitigation plans are in place for risks with a high likelihood of occurrence and/or potential impact.

We publish our sustainable development report in an online format in line with the reporting guidelines of the Global Reporting Initiative (GRI) to a B+ level. This report provides a detailed account of the governance of sustainability within the business, and our targets, strategy and performance in respect of environmental, social and economic contexts. The following discussion provides a summary of the key issues identified in our Sustainable development report 2012.

Engaging with our stakeholders

Key to our approach to sustainability is stakeholder engagement – at a local, regional and global level. We recognise that there is a broad range of stakeholders who have a genuine stake in or are affected by our Group and its activities. 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.




Merebank, South Africa ►
 Neighbouring school supported by Mondi
 in the Merebank, Durban area

Sustainable development review continued


Our most important stakeholders include:

Stakeholder group	Relevant areas
Shareholders and the investor community	<ul style="list-style-type: none"> • Return on capital invested • Legality • Sustainability • Resource efficiency • Reputation
Customers	<ul style="list-style-type: none"> • Value-for-money products • Clean production • Responsible forestry • Certified products • Reputation
Employees	<ul style="list-style-type: none"> • Job security and wages • Safety and health • Skills and career development
Communities surrounding our operations	<ul style="list-style-type: none"> • Livelihoods • Local infrastructure • Social agreements to minimise any negative impacts • Local taxes
Governments	<ul style="list-style-type: none"> • Regulatory compliance • Taxes • Community engagement and development
Non-governmental organisations (NGOs)	<ul style="list-style-type: none"> • Nature conservation • People • Resource efficiency • Responsible forestry • Business impacts • Natural capital

SD To view our stakeholder engagement matrix, including our engagement process and key topics and concerns during 2012 go to  www.mondigroup.com/sd12

Our broad engagement at all levels enables the timely identification of new stakeholders. We engage actively with our stakeholders in dialogues, partnerships and forums. These inform our responses and actions. Our formal and fully transparent SEAT (Socio-Economic Assessment Toolbox) process and community engagement plans (CEPs) demonstrate the level of our engagement at socially material operations. We use FSC to provide a global standard for monitoring of stakeholder engagement in our forests.

We encourage the contributions made by NGOs in identifying matters of concern, and their engagement with environmental and social projects. We support associations, advocacy groups and institutions that bring together and represent stakeholder groups at a global, regional and local level. Mondi is a supporter of The Forests Dialogue, a global multi-stakeholder forum committed to the conservation and sustainable use of forests and improved livelihoods, and participates on the Steering Committee and in numerous dialogues. We support and actively participate in the World Business Council for Sustainable Development (WBCSD), a coalition of some 200 companies throughout the world with a shared commitment to sustainable development.

The WBCSD's coalition of companies co-operate through action teams on the most urgent global sustainability issues facing business such as climate change, water, poverty, ecosystems and forests. WBCSD is the acknowledged voice for business on global sustainability issues and maintains a number of key partnerships with international governmental organisations (IGOs), NGOs and governments. Go to  www.wbcsd.org for further information.

SSF The WBCSD provides a vision for how the world could look in 2050. A more detailed discussion of this can be found on page 13.

Guiding sustainability

The Boards and executive team guide our overall strategy and chart our performance. They ensure that we set the highest standards for corporate governance, based on the principles of transparency, integrity and accountability.

Accountability for our sustainable development targets, strategy and performance is delegated to the DLC sustainable development committee. This committee is responsible for ensuring that the Group's sustainable development strategy, policies and commitments are aligned with global best practice. It also oversees performance in respect of safety, health, environment, forestry, product stewardship and community matters across the Group.

The DLC executive committee, chaired by chief executive, David Hathorn, has executive responsibility for our overall Group strategy and operating performance, including our sustainability performance. He is supported by line management, the sustainable development function and specialist network groups.

Six global specialist network groups have been established to determine and guide best practice and share knowledge. These are safety and health, environment, energy, black liquor recovery boiler, product stewardship, and fire safety networks. Each network group comprises specialists from across the world, who provide experience, expertise and knowledge to Mondi.

SD For the scope and boundary of our sustainable development reporting go to www.mondigroup.com/sd12

Our Sustainable Development Management System (SDMS) governs our approach to sustainability and the implementation of our sector policies. All facilities and activities that we own and operate (including those in which we hold a controlling interest), new developments, mergers, acquisitions and businesses that we plan to invest in, as well as activities undertaken by contractors on Mondi sites or while under our management, are incorporated into our SDMS and are required to comply with our policies, requirements and practices. The acquisition of Nordenia in 2012 was subject to an appropriate level of sustainability due diligence. In accordance with our policies, these operations will be aligned with Mondi's standards and requirements within a period of two years, by 2014.

IR The corporate governance section provides further detail about Speakout on page 79

Business ethics and integrity is important to Mondi. Management, employees and our business partners are guided by our code of business ethics, which is supported by our business integrity policy. All Mondi employees, contractors and external parties are provided the opportunity to raise genuine concerns about behaviour or activities that they believe may conflict with our business ethics or values through our confidential reporting hotline, Speakout. This is a key tool in detecting and reporting fraud and corrupt practices. In 2012 we received and addressed 65 Speakout messages worldwide (2011:46).

Internal and external assurance

The Mondi internal audit function is an integral part of Mondi's corporate governance. Mondi's internal audit function ensures that management at an appropriate level is informed about reported issues and that reported risks are adequately managed. Summaries of all reported issues, and the status of all unresolved items, are presented to the Mondi Boards and the DLC audit committee. Ultimately the assurance provided by the internal audit function serves to assist the Boards in fulfilling their disclosure obligations,

Sustainable development review continued

under the governance codes of South Africa and the UK, and to report annually to shareholders on the effectiveness of Mondi's systems of internal control.

Internal audit continues to increase its role in sustainability performance monitoring and assumes regular evaluation of the adequacy and effectiveness of our systems of internal control, across all business sites and all business processes. Internal audit investigates reported potential breaches of human rights, corruption and anti-competitive behaviour. Internal audits are conducted at all major operations every year, and at all remaining Mondi operations at least once every five years. We have a permanent internal audit presence at our most significant sites.

We believe that external assurance is an important part of the way we work, and that this provides stakeholders with a level of comfort in respect of our performance. ERM CVS has provided assurance on certain KPIs reported and on our compliance with GRI. See the full assurance statement at www.mondigroup.com/sd12. Our appointed statutory auditors, Deloitte, provide written assurance over our financial report.

We are pleased to have been included in CDP's FTSE 350 CDLI in the materials sector for the third consecutive year, as well as the FTSE4Good Global, European and UK Index Series and the JSE SRI Index. In 2012, Mondi was once again an advanced level reporter under the UNGC. Mondi has also been listed in CDP's FTSE 350 CPLI for the first time in 2012; a recognition for good strategy, management and performance. Mondi was also the sector leader in the Forest Footprint Disclosure in 2012.

We have adopted and implemented the ISO 14001 and OHSAS 18001 standards for our mills, and continue to make progress with implementing OHSAS 18001 standards at our converting operations. Our food contact packaging operations achieved good progress in certification to recognised food hygiene standards.

Our 2012 sustainable development material issues

Our sustainability is reliant on us managing our business to minimise the potential adverse impact on these inter-dependent economic, ecological and social systems, to enhance our positive contribution to these systems in order for them to function in a healthy and stable way, and to identify and seek opportunities that they present. In compiling our sustainable development report, we embarked on a formal process to identify those issues that are material to the Group and to our stakeholders.

We have considered the issues that we regard as material to our business:

- our sustainable development in a challenging macroeconomic environment;
- our sustainable development in a resource and ecologically constrained environment; and
- our sustainable socioeconomic development in our diverse working and social environments.

Our sustainable development in a challenging macroeconomic environment

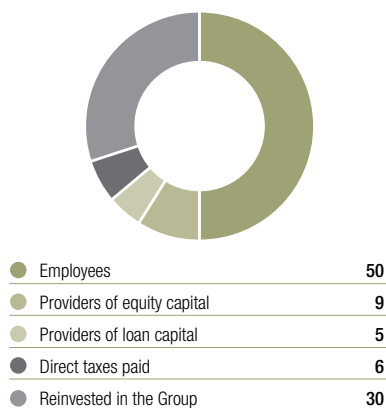
Our strategy supports the profitable development of innovative, sustainable and competitive products that meet customer demands and society's needs in response to global sustainability issues. Our sound governance and business practices reinforce our responsibility while operating in geographically-diverse, low-cost, high-growth markets.

SD For a more detailed account of our governance systems, processes and performance go to

www.mondigroup.com/sd12

IR Deloitte's independent auditors' reports can be found on pages 99 – 101

IR Our 2012 financial and operational performance is discussed in detail in the chief financial officer's review on pages 23 – 29 and the business review on pages 45 – 55

Distribution of value (%)**An extensive footprint, with significant impact**

As a sizable employer in developed and emerging economies, our socioeconomic impact is significant. At the end of 2012, the Mondi Group employed around 25,700 people. We add value to the communities in which we operate and society at large by creating wealth, employment and business. This contributes to the socioeconomic health and stability of these communities. In 2012, we generated economic value of €1,753 million which was distributed as follows:

- direct taxation of €107 million to host countries;
- payments to employees of €868 million, including wages and other benefits;
- payments of €252 million to shareholders and providers of loan capital; and
- the balance of €526 million reinvested in the Group.

Modernisation

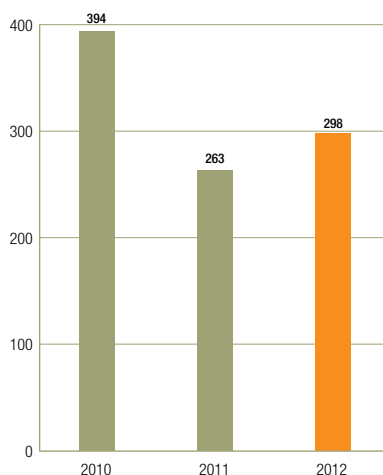
Mondi has achieved significant milestones in improving working conditions in its forestry operations in Russia and South Africa. The objective over several years has been to develop operational practices that meet international good practice standards and to ensure international competitiveness.

The modernisation and mechanisation programme with its focus on achieving both decent working conditions and competitive operations, will inevitably result in fewer but higher skilled and better paid jobs. To mitigate this impact, as an example in South Africa, Mondi established an enterprise development unit, Mondi Zimele, to support and promote small and medium sized enterprises by making equity, loans and development support available. Since Mondi Zimele's inception in 2006, in excess of 2,700 jobs have been created. In 2012, together with the Development Bank of Southern Africa, €13.2 million has been invested into the project with the goal to create 3,500 jobs within three years.

Capital expenditure

Capital expenditure of €298 million was €35 million higher than the prior year. The capital expenditure to depreciation ratio was 86% including expenditure on a number of the Group's strategic energy projects.

Mondi's approved energy related investments totalling approximately €140 million announced in early 2012 included a bark boiler at Syktyvkar in Russia, a steam turbine and recovery boiler economiser at Stambolijski, Bulgaria, a new recovery boiler at Frantschach, Austria and a new steam turbine at the Richards Bay mill in South Africa. The benefits of these investments, mainly in the form of reduced energy costs, improved efficiencies and energy self-sufficiency, are expected to be realised from the end of 2013 as these projects reach completion.

Capital expenditure (€ million)**Product stewardship, certification and labelling**

We aim to deliver exceptional value to our customers by transforming raw materials into innovative product solutions that meet their needs in a responsible and sustainable way. Developing cost-efficient, high-performance and environmentally-sound solutions is a cornerstone of our business strategy. All our business activities and products are underpinned by the philosophy of responsible citizenship. Our product responsibility strategy is aligned with the needs of our customers and guided by our product stewardship network. The strategy combines the views and expertise from regulators, product stewards, product developers and designers, R&D specialists, marketing and communications managers, in close collaboration with the sustainability team.

Sustainable development review continued

Effective product stewardship means we actively manage the environmental, safety and health impact of our products throughout their life cycle. Our approach to product stewardship is based on the Life-Cycle Initiative set out in the United Nations Environmental Programme (UNEP).

Third party certification is an important tool in supporting our credibility in the market. We have updated our procurement policies to ensure we do not procure any fibre based products from controversial sources. We are committed to maintaining the FSC certification of all our owned, leased and managed forests in South Africa and Russia; and sourcing our timber requirements from CoC-certified materials according to FSC or PEFC standards.

Our certified products carry clear and informative labelling to ensure that our customers are aware of the environmental practices and health and safety assessments conducted throughout the life cycles of our products.

Our product-related sustainability commitments include hygiene certification of all our food contact packaging operations and increasing the CoC-certified portion of our fibre-based products.

In 2012, no incidents of non-compliance relating to the regulation and voluntary codes we subscribe to concerning product and service information and labelling were recorded.

Innovative product development

Mondi runs a network of R&D and Innovation Centres. These centres focus on the development of products and solutions in their respective market segments to meet and exceed customer needs. The Green Range product family was developed to promote preferable purchasing, and to support customers in going green. The Green Range uncoated fine paper products comply with the ISO 14021 standard for self-declared environmental claims. These products are either totally chlorine free, manufactured from 100% recycled products, sourced from sustainably managed forests (FSC/PEFC certified), or a combination of these. In 2012, all Mondi-branded uncoated fine papers fulfilled the Green Range criteria. The range has since been extended to include smart packaging products including sack and speciality kraft papers, containerboard, corrugated packaging, industrial bags, extrusion coated products and consumer packaging.

The Green Range products are optimised to save natural resources, reduce waste and have received certifications towards their sustainability from internationally recognised bodies.

Our sustainable development in a resource and ecologically constrained environment


Our strategy aims to secure our long-term access to sustainable and credible sources of fibre by managing our natural capital including our carbon, water and forest footprints.

Operations are required to develop and implement environmental programmes and procedures aligned to Mondi operating standards, performance requirements and Mondi management standards. These are then aligned with our environmental strategy. Our environmental strategy ensures that we:

- meet the requirements of sustainable forestry practices, from the management of our forests to the procurement of our wood and fibre;

To view the full list of our Green Range products go to

 <http://www.mondigroup.com/products>

 **More information on Mondi's products can be found on pages 10 – 13**

Overview

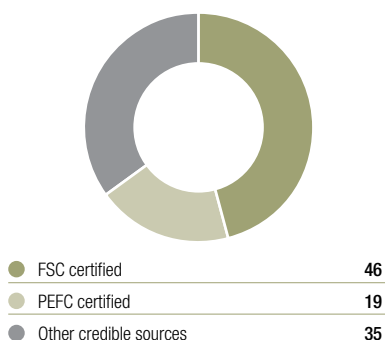
Performance

Governance

- incorporate environmental considerations into our decision-making, committing us to land and freshwater stewardship and allowing us to make a positive contribution to biodiversity and ecosystem maintenance;
- consider the consequences and mitigation of climate change on our business and communities;
- aim to reduce our CO₂e emissions from fossil fuels;
- manage our water resources wisely and responsibly; and
- address any risk or negative impact that may result from emissions, discharges and waste.

Environmental performance is taken into account when management performance is measured. Environmental management is integral to our operating costs, and environmental expenditure therefore cannot be separated from operational expenditure.

Certification of wood (%)



Responsible forestry

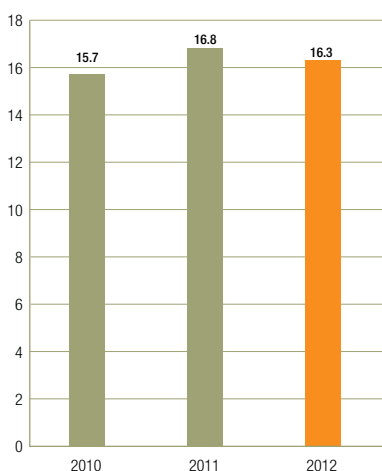
Wood is one of Mondi's primary raw materials. Securing access to sustainable and credible sources of fibre in the short, medium and long term, to meet the needs of our business and our customers, is among the most significant issues facing the Group.

Ensuring that we meet the requirements of sustainable forestry practices is a fundamental business imperative. For Mondi, this means consistently considering the productive capability, biological integrity and community needs of the forests that we own, lease or manage.

Mondi owns or leases 305,952 hectares of land in South Africa, of which 202,466 hectares – around 66% – are planted with hardwoods and softwoods. We also lease and manage 2.1 million hectares of mainly softwood boreal forests in Russia.

All our plantations in South Africa and leased/managed forests in Russia are FSC certified and 65% of all wood supply is FSC or PEFC certified. The uncertified balance met the FSC Controlled Wood Standard or the PEFC Mandatory Guidance for the Avoidance of Controversial Timber, ensuring that no wood or other fibre based products are procured from controversial sources.

Wood procured (million m³)



With the exception of Stambolijski, Bulgaria, all of our mills have CoC certificates in place, ensuring that the wood supplied to our processing operations was FSC or PEFC certified. We aim to certify Stambolijski to FSC CoC standards during 2013. This will however be dependent on the Bulgarian State Forest making sufficient volumes of certified material available.

The total amount of wood procured by Mondi in 2012 was 16.3 million m³*, of which 10.6 million m³ (65%) was certified to FSC/PEFC (2011: 16.8 million m³ of which 10.3 million m³ (61%) was certified to FSC/PEFC).

Mondi does not participate in deforestation, illegal logging, harvesting which affects any Convention of International Trade on Endangered Species (CITES), any rare and endangered species (International Union for Conservation of Nature (IUCN) red data species) and no wood is sourced from genetically modified (GM) trees. In addition, we do not grow GM crops. For every tree that is felled in our plantation forests, at least one other is planted. Some 31 million trees were planted by Mondi in 2012 (2011: 32 million).

We do not convert natural forests, riparian areas, wetlands or protected areas into plantations. HCV areas are identified and preserved or enhanced, as is biological diversity. In Russia we have set aside 522,260 hectares for conservation (25% of our landholding) and 76,398 hectares in South Africa (25% of our landholding).

* Wood volumes are reported in m³ across our reports, with figures reflecting Solid Cubic Metres (SCM).

Sustainable development review continued

Mondi is part of the new generation plantations (NGP) project, a collaborative effort between the WWF and several companies and governments, working together to identify and promote practices and policy frameworks that will enable a 'new generation' of more sustainable plantations. NGPs are intensively-managed forest plantations that maintain ecosystem integrity, protect HCV areas and are developed through stakeholder engagement, including NGOs, specialists and local communities, to contribute to economic growth and livelihoods.

We minimise the impact of our plantation and forestry activities on the environment by identifying and helping to protect important and vulnerable ecosystems. We have developed ecosystem management plans for all our forestry operations in South Africa. They help us improve the way we identify, protect, preserve, manage, and in some cases, restore functioning ecosystems and biodiversity.

Optimising energy usage and climate change

We have considered the consequences of climate change on our business, our business environment and our communities, and the means through which these consequences may be mitigated. Reducing carbon emissions from energy generation from fossil fuels, deforestation and forest degradation is fundamental to international efforts to address climate change.

Energy generation contributes significantly to greenhouse gas (GHG) emissions, and rising production volumes will continue to increase our energy consumption. In 2012, total energy use was 147.2 million GJ (2011: 146.9 million GJ) from our material operations and total electrical requirements for producing pulp and paper amounted to 5.5 million MWh (2011: 5.4 million MWh). Thus, our climate change programme is directed at optimising energy usage and increasing our use of renewable energy.

Our energy related projects, totalling approximately €300 million in capital expenditure, are expected to generate benefits with returns well in excess of our targeted ROCE from 2014 onwards.

We recognise that forests moderate climate change because of their ability to absorb and store CO₂.

We are improving our energy efficiency and reducing our CO₂e emissions from the use of fossil fuels by:

- improving the energy efficiency of our production processes;
- further increasing energy generation through combined heat and power (CHP) technology;
- increasing our use of biomass-based fuels for energy generation; and
- implementing projects that will deliver carbon credits under internationally-accepted flexible mechanisms, providing green energy to customers.

We use biomass energy sources such as black liquor as an alternative to fossil fuels at our chemical pulp mills. In total, some 58% of Mondi's fuel consumption for material operations was derived from biomass. Some of these operations are also net green energy providers to local communities and third parties. Our continued investments in new recovery boilers and turbines help us achieve greater energy efficiency and electrical self-sufficiency as well as reducing carbon emissions by utilising the heat value of black liquor.

We report our GHG emissions according to the Greenhouse Gas Protocol, published by the WBCSD and the World Resources Institute. We have reported our scope 1 and 2 GHG

SD Phases 1 and 2 of the NGP project have been completed, and Mondi has signed up to phase 3. To read more about our future commitments go to www.mondigroup.com/sd12

CASE STUDY

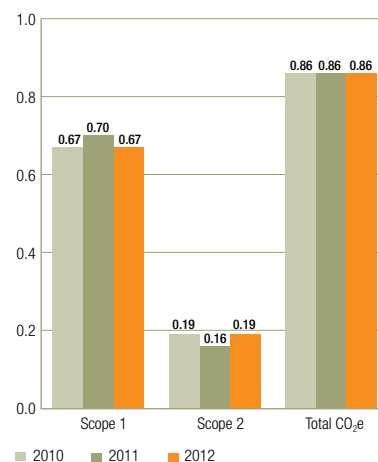
Active stewardship and MSAD's ecosystem management plans

See the full case study online at www.mondigroup.com/sd12-sa-ecosystem-management-plans



IR Our energy related capital expenditure is discussed in more detail in the chief executive's review on pages 17 – 18

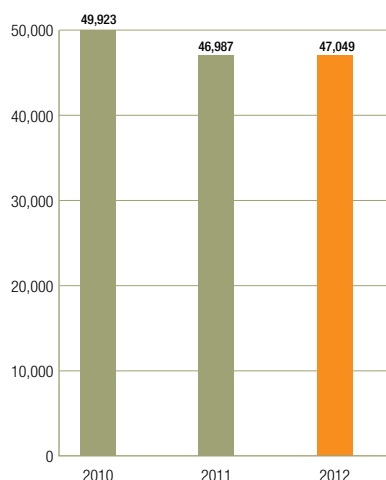
Specific CO₂e emissions from our material operations (CO₂e tonnes/tonnes of saleable production)



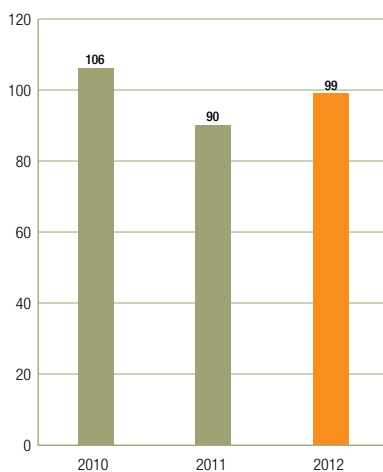
Overview

Performance

Governance

Emissions to water – COD (tonnes)

¹ Included in our water discharges is the waste water taken over from third parties and treated at our waste water treatment plants. The waste water from third parties (about 40 million m³ for 2012) is not reflected in our total water input figure reported.

TRS emissions (tonnes)

data in compliance with ISO 14064:1-2006. In 2012, our direct (scope 1) Group-wide GHG emissions amounted to 4.20 million tonnes CO₂e (2011: 4.27 million tonnes CO₂e) from our material operations and 0.12 million tonnes CO₂e (2011: 0.12 million tonnes CO₂e) from our converters, while our indirect (scope 2) emissions from purchased energy were 1.17 million tonnes CO₂e (2011: 1.00 million tonnes CO₂e), from our material operations and 0.10 million tonnes CO₂e (2011: 0.11 million tonnes CO₂e) from our converters. Our indirect (scope 3) emissions from transporting our products and raw materials, employee commuting, business travel and raw materials are estimated to amount to 2 million tonnes CO₂e (2011: 2 million tonnes CO₂e).

Water

We are a significant user of water and are committed to managing it wisely and responsibly. Our usage of, and interaction with, water is carefully considered in our environmental strategy and we have set concrete actions to reduce our direct water consumption and preserve and, in some cases, restore wetlands in our forests.

Water is a critical resource for the paper industry and is required during different stages in the production process, from growing wood to processing pulp into the final product. Most of our water footprint is the 'green' water (the rainwater stored in the soil as moisture) consumed in the forestry stage, where water is returned to the water cycle through evapotranspiration (the sum of evaporation and transpiration). Our total freshwater input for our operations in 2012 was 307 million m³ (2011: 309 million m³).

The recycling of water is important to optimise our resource efficiency. We also use the energy content of warm and hot water to generate energy, which has significant economic and environmental benefit. In 2012, Mondi achieved a 2% water input reduction through recycling and improved efficiencies.

The water discharged after production is thoroughly treated before being released back into the natural environment to ensure it is ecologically safe and meets all regulatory requirements. In 2012, 328 million m³ of water was discharged by Mondi's operations (2011: 330 million m³)¹.

We use two key indicators of discharges to water: chemical oxygen demand (COD); and adsorbable organic halogens (AOX). In 2012, COD tracked at 47,049 tonnes, an increase of 0.1%. AOX emissions decreased in 2012 by 3%, and Mondi continues to investigate ways to further reduce AOX emissions.

Emissions to air

Minimising emissions to air continues to be a priority for Mondi. Total reduced sulphur (TRS) compounds are emitted from our pulp mills and can be detected by humans in small quantities and at up to considerable distance from the source itself. While the scale of concentrations emitted does not pose a health concern, tracked amounts are enough to create a nuisance. These malodorous gases can give rise to complaints and are our biggest community concern. In 2012 our TRS emissions amounted to 99 tonnes (2011: 90 tonnes) with 138 odour related complaints reported.

In addition to CO₂, SO₂ is emitted as a result of the combustion of coal for energy generation and affects air quality. We continue to move away from using sulphur-containing coal towards renewable sources for energy generation.

NOx emissions are related to the combustion of fossil fuels and biomass at our onsite energy generation operations. We have implemented programmes to increase the

Sustainable development review continued

efficient use of our existing boilers and introduced de-NOx systems in the purification of exhaust gases. In 2012, our NOx emissions amounted to 11,514 tonnes (2011: 11,616 tonnes) while our particulate emissions amounted to 1,614 tonnes (2011: 1,536 tonnes).

Waste

Mondi's process waste is carefully monitored and we categorise it according to hazardous and non-hazardous waste. The majority of our waste is recycled, re-used or used as secondary fuel for energy generation. Our main waste streams are green liquor, boiler ash, lime mud, waste paper rejects and sludge.

In 2012, our total waste to landfill amounted to 266,642 tonnes, an 11% reduction on 2011. During 2012, we recorded 1,562 tonnes of hazardous waste to landfill due to permitting delays which necessitated the disposal of green liquor dregs at a hazardous landfill for a period of time, for our Richards Bay operation. Despite this hazardous waste to landfill increase, we have reduced our total waste to landfill by increasing the recycling and re-use of materials during 2012. Mondi's approach is to achieve zero waste to landfill in the future.

Recycling

Globally, paper is the most widely recycled product. Based on natural fibres, using renewable resources, all of Mondi's paper-based products can be recycled. About one third of our pulp use comes from paper for recycling. Materials that are too degraded for use in paper or board products can be used to provide carbon-neutral energy. In 2012, we consumed 1.5 million tonnes of paper for recycling, about a third of our pulp consumed.

Corrugated packaging consists of around 80% recycled content that is 100% biodegradable and recyclable.

As our business expands further into packaging and plastic products, we will explore new opportunities to increase the amount of recycled content used without compromising product quality and performance. We are very aware of the crucial issues with respect to climate change, energy, resource efficiency and waste management and are looking to reduce the environmental footprint of our products. Our waste management approach is in line with the EU waste hierarchy, using recycling and energy recovery to achieve our commitments.

Our sustainable socioeconomic development in our diverse working and social environments

Our strategy is to enhance our social footprint by engaging with our stakeholders in a mutually beneficial way, thereby ensuring the safety and health of our employees and contractors; attracting, retaining and developing our people; and promoting participation and development.

Our employees

For us to succeed as a globally competitive organisation, we need a skilled, trained and committed workforce, able to undertake jobs safely and productively and to fulfil their potential. Our aim is to develop and empower our people to perform at their best and to grow in a dynamic culture. In 2012, a total of 893,116 hours of employee and contractor time were devoted to training and development.

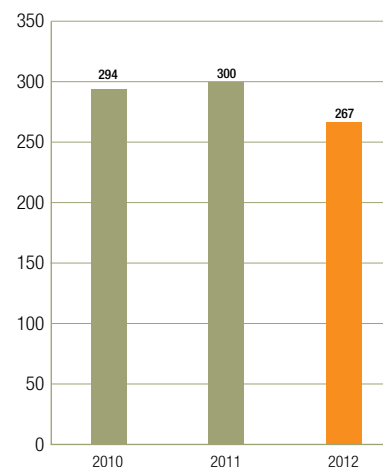
CASE STUDY

Odour elimination at Richards Bay pulp mill

See the full case study online at www.mondigroup.com/sd12-richards-bay-odour-elimination



Total waste to landfill (000 tonnes)



At the end of 2012, Mondi employed 25,700 people. We also provided employment for an estimated average of 2,220 contractors at our mills and 8,200 contractors within the forestry division in South Africa.

Mondi has formal and informal processes to communicate with and engage employees across the Group. In addition to electronic communications and publications, regular local briefing sessions by managers focus on safety, operational objectives and performance, achievements and the Group's values and culture. In 2011 a Group-wide employee survey was completed followed by feedback and consultation sessions in early 2012, resulting in initiatives which strengthen employee engagement and communication.

We uphold the labour rights set out in the Fundamental Rights Convention of the International Labour Organization (ILO) and subscribe to the Universal Declaration on Human Rights and the Voluntary Principles on Security and Human Rights. This is embodied in our SDMS which ensures the provision of a fair, safe and healthy workplace for all employees, free from discrimination, harassment or abuse. We encourage our suppliers, customers and business partners to work in accordance to these principles.

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

Collective bargaining practices differ from country to country and are embedded within the functioning of the Group. Our sustainable development policies, management standards and performance requirements on global employment and corporate citizenship comply with local legislation and ensure that employment practices are fair and that employees are represented appropriately.

Engaging with our communities

We make every effort to be a reliable and responsible neighbour at all our operations.

Social and economic conditions form an important backdrop to Mondi's contribution to the sustainable development of a region, and we conduct an assessment of the impact our industrial activities have on the socioeconomic climate of host communities and regions at our material sites every three to five years. This assessment is known as SEAT. In 2012, two SEAT assessments were finalised – one at Richards Bay, South Africa and one at Syktyvkar, Russia. SEAT reviews monitor our positive and negative impacts on local communities, NGOs and government as well as the quality, relevance, scope and effectiveness of our corporate social investment (CSI) programmes and projects. The review provides management's response and strategy to minimise negative impacts and to promote regional growth through structured social agreements.

Our CEPs provide the basis of our ongoing engagement and support of local communities, and are in place at all our mills and forestry operations. CEPs assist us in maintaining constructive dialogue, so that communities may raise any concerns which will, in turn, be addressed. Mutually acceptable monitoring mechanisms, developed in collaboration with local communities, monitor the effectiveness of our community engagement.

CASE STUDIES

See our case studies on the Richards Bay, South Africa and Syktyvkar, Russia SEAT reports

See the full case studies online at www.mondigroup.com/sd12-richards-bay-seat and www.mondigroup.com/sd12-syktyvkar-seat



Sustainable development review continued

CEPs also help us liaise with governments and local authorities; engage with NGOs, local industry and resident associations, local businesses and action groups; and with CSI.

CSI involves contributions whose benefits exceed those directly associated with our business activities. During 2012, Mondi contributed €14.3 million towards charitable donations and CSI projects (2011: €17.3 million).

SD Details of our CSI projects during 2012 can be found at www.mondigroup.com/sd12

Our safety culture

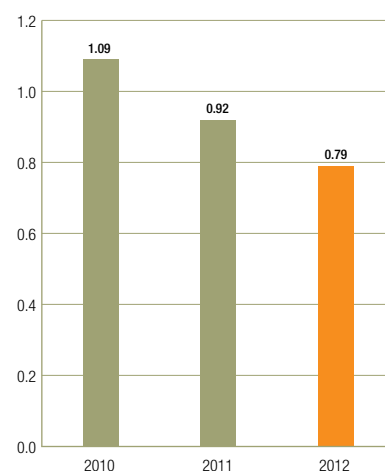
Many of our employees and contractors work in potentially dangerous environments where hazards are ever-present and must be managed. Our approach to safety and health management is underpinned by our desire to create a culture where responsibility for safety and health is shared. Visible management commitment and learning from experience are critical elements in our progression towards our goal of zero harm in the workplace.

It is with great regret that we report two fatalities at our operations during the year – one in Finland and one in Russia. Full investigations have been conducted into these incidents. We are also reviewing our approach to high risk, low probability incidents in order to achieve a fatality-free working environment. Our TRCR (per 200,000 hours worked) was 0.79 (2011: 0.92).

A risk-based approach underpins our safety and health programmes. All business units and operations are required to have safety improvement plans in place. These plans are aligned with our systematic and standardised approach to safety management to drive continuous improvement.

We engage in extensive safety training sessions, involving employees and contractors, at all our operations. Our Nine Safety Rules to Live By, applied across the Group, are integral to our safety strategy. Operations conduct statutory safety committee meetings where management and employees are represented.

TRCR (per 200,000 hours worked)



Our health culture

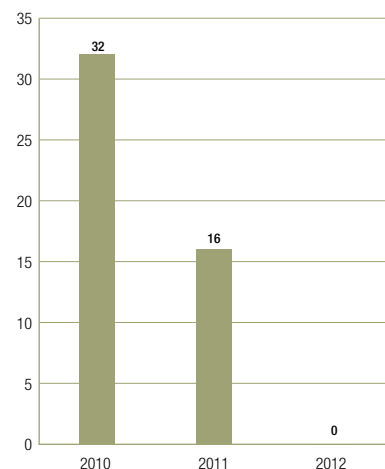
Our occupational health systems vary between operations and regions, as do the specific local occupational health stressors present.

To address the various aspects of health and wellbeing, we approach occupational health in a holistic way and continue to focus on prevention and promoting the correct use of personal protective equipment.

Operations are encouraged to host health days for employees, in which various medical practitioners and health care providers participate. Furthermore, employees are encouraged to participate in health care monitoring services such as eye, blood and sugar level tests.

Noise level restrictions are enforced at our operations and programmes are also in place to reduce exposure to excessive noise and to measure actual noise levels. All employees, contractors and visitors exposed to high levels of noise are required to use hearing protective devices. Those employees who need to work in 'noisy zones' are required to undergo regular medical examinations to monitor their hearing to detect the early signs of noise-induced hearing loss (NIHL). In 2012, no new cases of NIHL were identified.

NIHL (no. of new cases identified)



In South Africa, HIV/AIDS continues to cause illness and deaths amongst our employees and communities. Mondi creates awareness of the disease to avoid onward infection and to encourage testing, counselling and treatment. Voluntary counselling and testing (VCT) is freely available to all employees, and 1,198 employees made use of it in 2012. Anti-retroviral Therapy (ART) is also available to all employees and 175 people are currently receiving this treatment provided by our health clinics.

Land claims in South Africa

Mondi is committed to restoring land to community ownership in South Africa. We have a successful model for engaging and settling with land claimant communities, and assist them to develop long-term sustainable solutions and forestry enterprises rather than merely land restitution. In this way communities derive an income from their land, and Mondi retains a reliable source of wood supply.

In 2012, we settled eight more land claims (bringing the total number of settled claims to 19) involving 17,500 hectares of Mondi land under forestry. In total, some 36,300 hectares of Mondi land under forestry have been transferred to community beneficiaries.

Our sustainable future

Packaging and paper products are used all over the world, every day. Our products need to be versatile to respond to changing societal needs, including customer demand for environmentally preferable purchasing. We have a responsibility to respond effectively to the challenges and opportunities this presents with sustainable development an integral part of our strategy. Our sustainability commitments and material issues allow Mondi to continue to shape our business.



Dynäs, Sweden ►

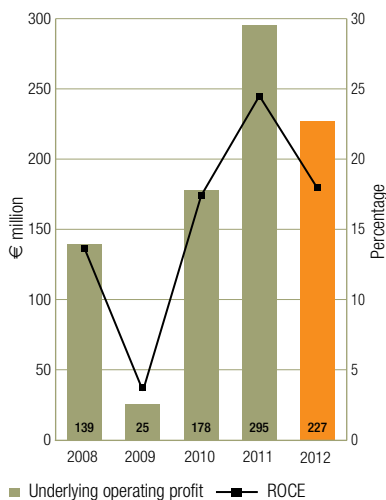
Recycled kraft paper produced at our mill



◀ Richards Bay, South Africa
Our integrated pulp and containerboard mill

Business review

Packaging Paper: five year performance



¹ For sustainability reporting, the mills are classified on the basis of their predominant product. For example Syktyvkar, although also producing packaging paper, is only included in Uncoated Fine Paper.

Europe & International: Packaging Paper

Key performance indicators	Year ended 31 December 2012	Year ended 31 December 2011
Financial performance (€ million)		
Segment revenue	1,896	2,006
– of which inter-segment revenue	469	469
EBITDA	321	392
Underlying operating profit	227	295
Special items	–	(11)
Capital expenditure	89	67
Net segment assets	1,466	1,249
ROCE (%)	17.9	24.4
Sustainability performance¹		
% CoC certified timber input	51	
Number of mills with ISO14001 certification	7 of 7	
Number of mills with OHSAS 18001 certification	7 of 7	
Number of food contact packaging operations certified to recognised food hygiene standard	3 of 7	
TRCR	0.94	0.89
Water input (million m ³)	126.04	124.38
% reduction in total waste to landfill against 2010	15	17
Total scope 1 and 2 GHG emissions (million tonnes CO ₂ e)	1.38	1.35
Total energy use (million GJ)	53.11	51.79

Financial review

Packaging Paper delivered another good financial performance despite the more challenging trading environment, with a ROCE of 17.9% and underlying operating profit of €227 million.

The early part of the year was characterised by weak demand, with market related downtime continuing from the end of 2011 into the first quarter of 2012. Demand improved during the first half, enabling the business to implement price increases in the virgin containerboard and kraft paper grades, which became effective during the second half of the year. Sales volumes of containerboard were similar to those of the previous year whilst volumes of kraft paper increased as a result of stronger export markets.

Whilst industry wide demand for the various containerboard grades was lower than the previous year, with growth in the emerging central European countries only partly

Business review continued

offsetting the decline in the more mature western markets, Mondi increased its volumes by 3% during the year. European markets for sack kraft paper remained weak with demand below prior year levels. The sack kraft business, however, continued to benefit from strong export growth, particularly in Asia and Africa.

In 2012, virgin containerboard pricing was weaker on average than in 2011 and average benchmark kraftliner prices were 6% lower. However, supply side contraction coupled with reduced imports from the US resulted in an improved supply/demand balance with price increases being realised in stages throughout the second half of 2012. Average benchmark prices in the second half of 2012 for kraftliner were 7% higher than in the first half. European virgin containerboard markets remain firm in early 2013.

Surplus capacity in recycled containerboard continued to influence pricing and average benchmark prices were 10% lower than in 2011. After recovering through the end of the first quarter and into the second quarter from the January 2012 lows, pricing weakened in the second half on lower input costs. Average benchmark prices in the second half of 2012 were 4% lower than in the first half. Recent capacity closures coupled with a stable demand environment have firmed up the recycled containerboard market. As yet, there has been little impact from the start-up of new capacity in Poland. A price increase of €60/tonne was announced in January 2013.

Sack kraft paper prices were on average 2 – 4% lower than in 2011 despite price increases having been implemented in the third quarter, reflected in average prices in the second half being around 2% higher than the first half. European price levels have weakened marginally in early 2013, while pricing in export markets remains stable.

Packaging Paper benefited from lower input costs particularly in the second half of the year with lower wood costs in central Europe, and paper for recycling costs being on average 16% lower than in 2011. The acquisition by Mondi Świecie of the power and heat generating operation benefited the business with lower costs and increased green energy credits, although the lower average selling prices achieved for green energy credits did provide some offset.

The business also benefited significantly from profit improvement initiatives which, along with improved productivity, enabled the business to continue to realise good returns on invested capital.

The containerboard business is expected to benefit from synergies from the acquisition of the Duropack corrugated packaging operations in Germany and the Czech Republic, completed in November 2012, primarily through reduced transportation costs (refer to European & International – Fibre Packaging for more detail).

Sustainability

In support of the Group's drive to increase own energy generation and efficiency, the new steam turbine and economiser at Stambolijski, Bulgaria, and the Frantschach recovery boiler in Austria, two of the green energy investments, are scheduled for start up in the fourth quarter of 2013.

Certification of timber continues to be an important objective in the business unit. The Stambolijski mill sources its timber requirement from the Bulgarian state forests which are not yet fully certified. Half of the timber procured for the business unit was from CoC certified sources, with the balance meeting the FSC Controlled Wood standards.

The business benefited significantly from profit improvement initiatives

SD The sustainability performance indicators in the business review are part of our 2015 sustainable development commitments, with progress reported to date. For more information go to  www.mondigroup.com/sd12

SD We believe that all safety incidents are preventable and that we must learn from experience. Read more about our safety culture at www.mondigroup.com/sd12

Our 2015 product related sustainability commitments include hygiene certification of all our food contact packaging operations. Good Manufacturing Practice (GMP) is legislated in many countries where our products are made, helping to ensure quality control.

¹ The food hygiene standards that Mondi's operations are certified against include: ISO 22000, EN 15593, BRC/IoP or AIB.

Mondi's aim is to certify the Stambolijski mill to FSC/CoC standards during 2013. However this is dependent on the Bulgarian State Forest being able to provide sufficient volume of certified material.

Safety is a critical focus area and it is unacceptable that a fatality occurred at the Lohja mill in Finland during the year. A full investigation into the accident was completed and management have identified measures to address the shortcomings, including sharing the learnings to prevent a recurrence and improve safety performance. The TRCR increased from 0.89 to 0.94 over the previous year mainly due to safety challenges at one of our kraft mills.

All seven mills have environmental management systems in accordance with ISO 14001 and occupational safety and health management systems in accordance with OHSAS 18001.

Three of the seven mills producing food contact packaging are certified to a recognised food hygiene standard¹ and other mills have a minimum hygiene management system in place according to Good Manufacturing Practice (GMP).

Water input increased marginally to 126.04 million m³ compared with 124.38 million m³ in 2011 due to an increase in production, with recycled waste increasing and, consequently, waste sent to landfill reducing by 15% against the 2010 base year. This is in line with our 2015 sustainability commitment to decrease the Group's total waste to landfill by 20% against a 2010 base year. Carbon emissions and energy usage remained stable at 2011 levels, with increased production resulting in a minor increase.



Świecie, Poland ►

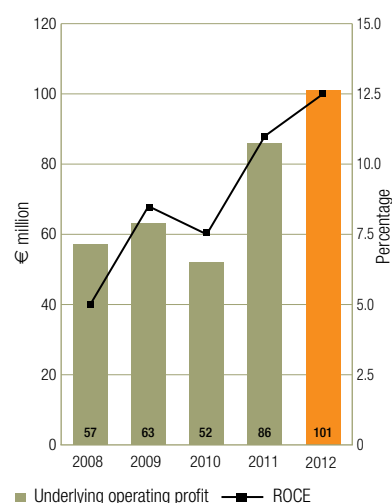
Employees at our packaging paper mill

Business review continued

Europe & International – Fibre Packaging

Key performance indicators	Year ended 31 December 2012	Year ended 31 December 2011
Financial performance (€ million)		
Segment revenue	1,860	1,881
– of which inter-segment revenue	42	33
EBITDA	168	149
Underlying operating profit	101	86
Special items	(16)	(8)
Capital expenditure	76	72
Net segment assets	958	866
ROCE (%)	12.5	11.0
Sustainability performance¹		
Number of operations with OHSAS 18001 certification	46 of 68	
Number of food contact packaging operations certified to recognised food hygiene standard	26 of 42	
TRCR	1.49	1.72
Water input (million m ³)	3.99	4.74
% reduction/(increase) in total waste to landfill against 2010	5	(5)
Total scope 1 and 2 GHG emissions (million tonnes CO ₂ e)	0.17	0.17
Total energy use (million GJ)	2.25	2.21

Fibre Packaging: five year performance



¹ For sustainability performance, the mills are classified on the basis of their predominant product and exclude recent acquisitions.

Financial review

Fibre Packaging realised a 17% increase in underlying operating profit to €101 million in 2012. The improvement reflects the benefits of ongoing profit improvement initiatives and lower input costs. The ROCE of 12.5%, whilst still below our 13% target, reflects a pleasing improvement on 2011 levels.

The corrugated packaging business benefited from generally stable pricing and volumes coupled with lower paper input costs. Market demand for corrugated packaging products was broadly unchanged in the mature central European markets whilst pleasing growth continued to be seen in emerging Europe. Average selling prices in emerging Europe were higher than in 2011 which offset in part the declines experienced in the more mature markets.

In line with the Group's strategy to strengthen its leading market position in corrugated packaging in central and eastern Europe, Mondi acquired two corrugated box operations

IR *Mondi's four pillar strategy provides a framework for the business. For more detail see page 2.*

in Germany and the Czech Republic consuming 130,000 tonnes of containerboard per annum, and a 105,000 tonne recycled containerboard mill in the Czech Republic from Duropack on 5 November 2012. On 19 November 2012, Mondi announced its intention to close the recycled containerboard mill. The acquisition of the packaging operations is expected to provide the Group with improved access to these regional markets and generate logistics synergies from their proximity to the Świecie containerboard mill in Poland. Cost synergies are estimated at approximately €10 million per annum, up around one-third from the original estimate at the time of acquisition. After taking into account the restructuring and closure costs of €3 million, the contribution to underlying operating profit in 2012 from this acquisition was a loss of €2 million.

Industrial bags benefited from lower paper input costs and productivity and cost improvement initiatives, which more than offset lower sales volumes and lower average selling prices. Growth in the CIS, Middle East, North Africa and Asia regions was positive whilst the western European markets continued to be weak, particularly in the south. This has necessitated restructuring in Belgium, Spain and France with restructuring provisions and an asset impairment charge amounting to €21 million being recognised in special items.

The coatings business benefited from lower input costs for both paper and resin as well as from stringent cost management measures and productivity improvements. These gains were offset in part by weaker demand, particularly from the automotive and building industries, and consequently lower selling prices. The new facility in the US continues to ramp up its activities, particularly in respect of product qualification in higher value markets.

Sustainability

Good progress was made with certifying the Group's largest converting business unit against OHSAS 18001 for occupational safety and health. Forty six converting operations achieved certification in 2012 with a further twenty two remaining in progress.

Twenty six operations involved in food contact packaging have been certified and the remaining sixteen have a hygiene management system in place according to GMP.

The business unit's 2012 safety performance showed an improvement with a reduction in TRCR from 1.72 to 1.49 compared to 2011.

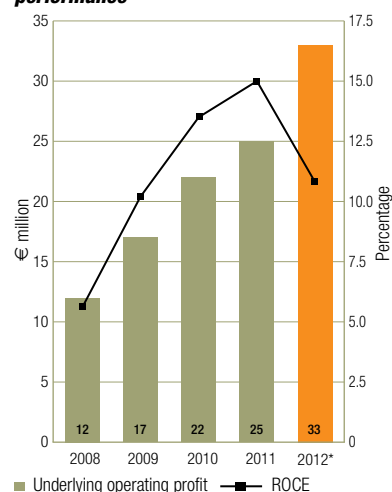
Water input decreased from 4.74 million m³ to 3.99 million m³ due to reduced production volumes and process improvements, such as introducing water recycling. Waste to landfill decreased in 2012 following the slight increase in 2011 due to increased production. Although energy usage slightly increased, carbon emissions remained at the 2011 levels due to a reduction in the use of carbon intensive purchased heat.

Business review continued

Europe & International – Consumer Packaging

Key performance indicators	Year ended 31 December 2012	Year ended 31 December 2011
Financial performance (€ million)		
Segment revenue	502	372
– of which inter-segment revenue	4	5
EBITDA	45	37
Underlying operating profit	19	25
Special items	(11)	(5)
Capital expenditure	28	15
Net segment assets	872	131
ROCE (%)	6.2	15.0
Adjusted for non-recurring items in 2012 and the effect of the disposal of Unterland in 2011		
Adjusted EBITDA	54	30
Adjusted underlying operating profit	33	20
Adjusted ROCE (%)	10.8	16.9
Sustainability performance¹		
Number of converting operations with OHSAS 18001 certification	6 of 7	
Number of food contact packaging operations certified to recognised food hygiene standard	7 of 7	
TRCR	1.60	2.27
Water input (million m ³)	0.11	1.88
% reduction in total waste to landfill against 2010	3	22
Total scope 1 and 2 GHG emissions (million tonnes CO ₂ e)	0.03	0.03
Total energy use (million GJ)	0.38	0.42

Consumer Packaging: five year performance



* Adjusted for one-off costs of €14 million.

¹ Excludes Nordenia acquisition.

Financial review

The growth in consumer packaging reflects a significant step in the Group's strategic development in higher growth markets. Mondi acquired a 99.93% interest in Nordenia with effect from 1 October 2012.

Nordenia, as an international supplier of innovative consumer packaging solutions and hygiene components, enables the Group to develop a leading consumer packaging business, building on existing deep, long-term customer relationships. Nordenia enjoys a strong competitive advantage through its proprietary technology, global presence and a proven track record of innovation and growth.

Stripping out the effects of one-off costs and depreciation and amortisation charges largely related to the acquisition accounting of €18 million detailed below, the ex-Nordenia business delivered underlying operating profit of €19 million in the fourth quarter, in line with expectations at the time of the acquisition.

IR For further detail on the Nordenia acquisition, see the chief executive's review on page 16 and note 29 on page 160 of the annual financial statements

On acquisition, the Group recognised the net assets of Nordenia at their fair market value (the details of which are set out in note 29 of the annual financial statements) resulting in a higher depreciation and amortisation charge than recognised in the stand-alone Nordenia business. In the three months to 31 December 2012, this charge amounted to €4 million. The increase in depreciation and amortisation from 2013 will be approximately €13 million per year.

In the fourth quarter a number of one-off costs, amounting to €14 million were recognised. These costs mainly related to the acquisition accounting for the Nordenia transaction and include the effect of the recognition of short-term assets at their fair value which were subsequently recognised as an expense in the income statement.

Comparability with the prior year is further complicated by the sale of Unterland in October 2011 which contributed €7 million of EBITDA and €5 million of underlying operating profit up to the date of disposal.

In addition to the full year contribution from Nordenia in 2013, synergies amounting to approximately €20 million per annum are expected to be realised by the end of 2014, with approximately half the benefit already expected in 2013. This synergy target exceeds the original estimates at the time of the acquisition of €15 million per annum, largely due to increased confidence on the delivery of a number of cost reduction initiatives.

Consumer Packaging has a strong product pipeline in development. The business expects its plant in China to commence operations towards the end of 2013 with full capacity being reached by 2015.

Sustainability

The acquisition of Nordenia was subject to an appropriate level of sustainability due diligence and, in accordance with our policies, these operations will be aligned with Mondi's standards and requirements by 2014.

Given the importance of food contact certification in this business unit, a 100% certification of all operations against recognised hygiene standards was maintained. Six out of seven converting operations also maintained or achieved OHSAS 18001 certification for occupational safety and health.

Safety performance showed an improvement from a TRCR of 2.27 in 2011 to 1.60 in 2012. The reasons for the improvement include the introduction of a Major Incident Cause Evaluation system for investigating incidents and to prevent repeat incidents. In addition, over the years considerable effort has gone into contractor safety management to ensure that contractor companies understand the requirements and adhere to them whilst on site, as well as monitoring and evaluating their performance.

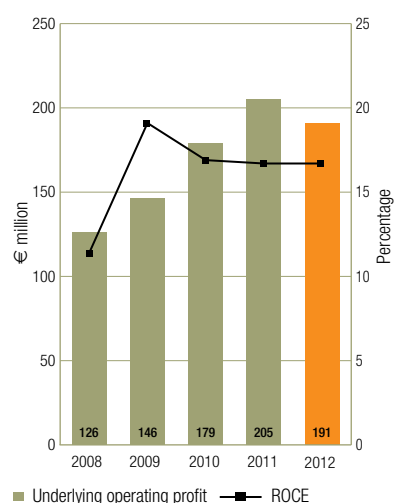
Water input reduced significantly from 1.88 million m³ to 0.11 million m³ mainly due to the sale of the cooling water intensive Unterland operation in Austria in 2011. In 2012, an increase in landfilled waste was experienced compared with 2011, mainly due to the amended calculation of previously under estimated waste streams. While carbon emissions remained stable, energy usage decreased compared with 2011 levels mainly due to the sale of the Unterland operation.

Business review continued

Europe & International – Uncoated Fine Paper business

Key performance indicators	Year ended 31 December 2012	Year ended 31 December 2011
Financial performance (€ million)		
Segment revenue	1,466	1,429
– of which inter-segment revenue	13	20
EBITDA	300	309
Underlying operating profit	191	205
Special items	–	2
Capital expenditure	58	61
Net segment assets	1,248	1,283
ROCE (%)	16.7	16.7
Sustainability performance		
% CoC certified timber input	74%	
Number of mills with ISO14001 certification	3 of 3	
Number of mills with OHSAS 18001 certification	3 of 3	
TRCR	0.25	0.26
Water input (million m ³)	144.24	148.53
% reduction/(increase) in total waste to landfill against 2010	11	(58)
Total scope 1 and 2 GHG emissions (million tonnes CO ₂ e)	2.47	2.48
Total energy use (million GJ)	62.92	63.94

Uncoated Fine Paper: five year performance



Financial review

Uncoated Fine Paper again delivered a strong operating performance with underlying operating profit of €191 million and a ROCE of 16.7%.

Whilst western European markets remained soft, impacted by both short-term cyclical and longer-term structural challenges, demand growth in eastern Europe (excluding the CIS region) was marginally positive. In aggregate, Mondi's sales volumes for uncoated fine paper were on a similar level to that of the previous year.

In Europe selling prices were stable throughout the year with average benchmark European uncoated fine paper prices declining by 1% in the year, while marginal price increases were achieved in the Russian market.

Russia entered the World Trade Organisation in August 2012 and, as a consequence, import duties for uncoated fine paper will reduce by 2.5% per year until they reach a level of 5% in 2016. Implementation is due to start in 2013. The reduction in trade duties, coupled with new capacity coming on stream in Russia and France, is expected to place some pressure on pricing in the short to medium term.

The business benefited from lower input costs, driven by lower pulp costs for the unintegrated Neusiedler operation, partially offset by higher wood costs in Russia and generally higher energy costs. Fixed costs were higher, largely due to a higher depreciation charge offset by ongoing cost optimisation initiatives.

Sustainability

Mondi's 2015 product related sustainability commitments include increasing the CoC-certified portion of our fibre based products.

74% of timber input in the business unit was CoC certified and was sourced largely from our 100% FSC-certified Russian forests, with the balance meeting the FSC Controlled Wood Standard. All mills maintained ISO 14001 and OHSAS 18001 certification.

The Group has focused on eliminating injuries resulting from working at heights and it is particularly disappointing to the business unit that a fatality occurred as a result of this at the Syktyvkar mill in Russia. A full investigation was completed and a detailed improvement plan developed. The TRCR remained at a similar level, 0.25 in 2012 compared with 0.26 in 2011.

Water input reduced to 144 million m³ in 2012 from 149 million m³ in 2011. The business unit's 2012 waste to landfill figures showed an 11% reduction against the 2010 base year, in line with our commitment to increase the recycling and re-use of materials. Carbon emissions and energy usage were slightly lower than the 2011 levels.



Ružomberok, Slovakia ►

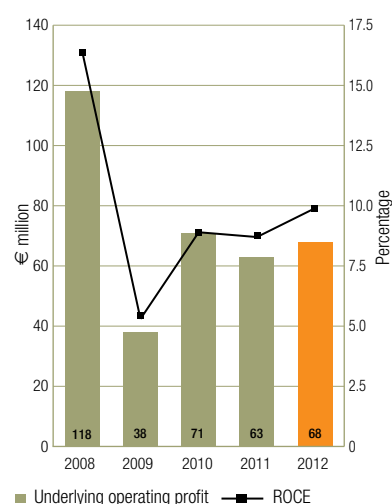
Maestro, one of our uncoated fine paper brands and part of Mondi's Green Range

Business review continued

South Africa Division

Key performance indicators	Year ended 31 December 2012	Year ended 31 December 2011
Financial performance (€ million)		
Segment revenue	653	645
– of which inter-segment revenue	109	155
EBITDA	123	117
Underlying operating profit	68	63
Special items	6	–
Capital expenditure	46	29
Net segment assets	811	860
ROCE (%)	9.9	8.7
Sustainability performance		
% land claims settled	25	
% land transferred to claimant communities	92	
% CoC certified timber input	100	
Number of mills with ISO14001	2 of 2	
Number of mills with OHSAS 18001 certification	2 of 2	
Number of food contact packaging operations certified to recognised food hygiene standard	0 of 1	
TRCR	0.68	0.86
Water input (million m ³)	32.36	33.70
% reduction/(increase) in total waste to landfill against 2010	3	(3)
Total scope 1 and 2 GHG emissions (million tonnes CO ₂ e)	1.43	1.33
Total energy use (million GJ)	29.72	29.48

MSAD: five year performance



Financial review

South Africa Division delivered an improved result with underlying operating profit increasing by 8% to €68 million and ROCE to 9.9%. Whilst still below the Group's target rate, it is pleasing to note the continued improvement in this business from the lows of 2009.

Sales volumes increased across all grades, largely on the back of increasing domestic demand.

Domestic selling price increases for uncoated fine paper and newsprint were implemented early in 2012 and prices remained at those levels throughout the year. Both pulp and white-top kraftliner sales prices decreased on the back of lower average international benchmark US dollar selling prices. Lower average selling prices were offset in large part by gains from the weaker South African rand versus the US dollar and euro.

Above inflation wage and energy price increases were mitigated through ongoing cost management and efficiency improvement initiatives such that overall cost increases were kept below prevailing inflation rates.

Sustainability

In support of the Group's drive to increase own energy generation and efficiency, the new steam turbine at Richards Bay is scheduled for start up in the fourth quarter of 2013.

Timber was sourced mainly from own plantations which are 100% FSC certified and both mills maintained ISO 14001 and OHSAS 18001 certification.

Safety performance improved with the TRCR reducing from 0.86 to 0.68 in 2012. Contributing factors were a much improved safety performance in forestry operations and one of the mills, whilst there is a focus on addressing the safety challenges at the other mill.

One of the two mills has a limited portfolio involving food contact packaging and has a hygiene management system according to GMP in place.

Good progress is being made in land claims with a further eight land claims having been settled during the year.

Water input reduced somewhat from 33.70 million m³ to 32.36 million m³ in 2012. Similarly, waste levels were stable, and have shown a declining trend after a slight increase in 2011. Carbon emissions and energy usage increased slightly mainly due to increased production volumes.



Richards Bay, South Africa ►
Rolls of Baywhite, a white-top kraftliner



◀ Syktyvkar, Russia

*Electrostatic precipitators of the recovery boiler
at our mill*

Risk management and internal control

It is in the nature of Mondi's business that we are exposed to risks and uncertainties which may have an impact on our future performance and financial results, as well as on our 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 Boards are responsible for establishing and maintaining an effective system of 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, sustainability, financial, operational and compliance-related risks which could undermine the Group's ability to achieve its business objectives in a sustainable manner. Our risk management framework is designed to be flexible, to ensure that it remains relevant at all levels of the business given the diversity of our 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 our Group is a key performance criterion for our 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.

Internal control

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

Risk management and internal control continued

to ensure controls are adequately designed and are operating efficiently and effectively. Actions are taken to correct internal control deficiencies as they are identified.

Our system of internal control, embedded in all key operations, is designed to provide reasonable rather than absolute assurance that our 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.

Key elements of Mondi's system of internal control are:

- a simple and focused business strategy, restricting potential risk exposure;
- a clearly-defined organisation structure with established and reasonable division of responsibilities;
- Group financial, business conduct, operating and administrative policies and procedures which incorporate statements of required behaviour;
- 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;
- 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; and
- assurance activities covering the key business risks summarised and reported annually to the Boards, the DLC audit committee and the DLC sustainable development committee.



◀ Świecie, Poland

*Lightweight recycled containerboard
production line*

Principal risks and uncertainties

We believe that we have effective systems and controls in place to manage the key risks identified below within the risk tolerance levels established by the Boards.

Our industry and operations

Competitive environment in which we operate

The industry in which we operate is highly competitive and subject to significant volatility. New capacity additions are usually in large increments which, combined with product substitution towards lighter weight products and alternative packaging solutions and increasing environmental considerations, have an impact on the supply-demand balance and hence on market prices.

We monitor industry developments in terms of changes in capacity as well as trends and developments in our own product range and potential substitutes.

A flexible and responsive approach to market and operating conditions and our strategic focus on low-cost production in growing markets, with consistent investment in our operating capacity serve to mitigate this risk.

In 2012, the acquisitions of Nordenia and the corrugated packaging operations in Germany and the Czech Republic, as well as the disposal of Aylesford Newsprint, further position Mondi in our selected strategic growth areas.

Cost and availability of a sustainable supply of raw materials

Fibre (wood, pulp and paper for recycling) and resins account for approximately one-third of our input costs. It is our objective to acquire fibre from sustainable sources and to avoid the use of any illegal or controversial supply.

All our plantations in South Africa and leased/managed forests in Russia are FSC certified. With the exception of Stambolijski, Bulgaria, all of our mills have CoC certificates in place, ensuring that the wood procured in 2012 was from non-controversial sources. Stambolijski will be certified to FSC CoC standards in 2013 and currently wood supplies meet our minimum wood standards that ensure legality and non-controversial wood sources.

We constantly monitor international market prices for our other raw materials (paper for recycling and resins) and, where possible, have cost pass-through mechanisms in place with customers to mitigate the risk of input cost increases.

Our focus on high-quality, low-cost operations, relatively high levels of integration and access to our own fibre in Russia and South Africa further mitigate this risk.

Cost of energy and related input costs

Non-fibre input costs comprise approximately a third of our total variable costs. Increasing energy costs, and the consequential impact thereof on both chemical and transport costs, may impact our operating profit margins.

Active investment in energy related projects have significantly improved energy self-sufficiency and efficiency in our operations.

Capital intensive operations

We operate large facilities, often in remote locations. The ongoing safety and sustainable operation of such sites is critical to our success.

Our management system ensures ongoing monitoring of all operations to ensure they meet the requisite standards and performance requirements. We have adequate insurance in place to cover material property damage, business interruption and liability risks.

A structured maintenance programme is in place under the auspices of our Group technical director.

Emergency preparedness and response procedures are in place and subject to periodic drills.

Risk management and internal control continued

Principal risks and uncertainties continued

The locations in which we operate	
Geographical risk	
<p><i>We operate 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. In addition, economic risks in certain regions are heightened following the macroeconomic uncertainties experienced in recent years.</i></p>	<p>We are invested in a number of geographical locations, with a strategic focus on low-cost high-growth markets. This geographical diversity and decentralised management structure utilising local resources in countries in which we operate reduces our exposure to any specific jurisdiction.</p> <p>We continue to actively monitor and adapt to changes in the environments in which we operate.</p>
Our people	
Attraction and retention of key skills and talent	
<p><i>The complexity of operations and geographic diversity of our Group is such that high-quality, experienced employees are required in all locations.</i></p>	<p>Appropriate reward and retention strategies are in place to attract and retain talent across the organisation. At more senior levels, these include share-based incentive schemes as described in note 28 of the annual financial statements.</p>
Employee and contractor safety	
<p><i>Our employees work in potentially dangerous environments where hazards are ever-present and must be managed.</i></p>	<p>We are committed to achieving zero harm in the workplace. We engage in extensive safety training sessions, involving employees and contractors, at all our operations. Our Nine Safety Rules to Live By, applied across the Group, are integral to our safety strategy. Operations conduct statutory safety committee meetings where management and employees are represented.</p> <p>A risk-based approach underpins our safety and health programmes. All business units and operations are required to have safety improvement plans in place.</p> <p>It is with great regret that we report two fatalities at our operations during the year – one in Finland and one in Russia. Our total recordable case rate (per 200,000 hours worked) was 0.79 (2011: 0.92).</p>

Environmental footprint

Maintaining our socioeconomic licence to trade is a strategic imperative. This encompasses continued access to credible sources of fibre as described above, protection of HCV areas and bio-diversity, eco-efficiency of products throughout their lifecycle and our carbon and energy footprint.

Our approach to product stewardship is based on the Life-Cycle Initiative set out in the UNEP. Our certified products carry clear and informative labelling to ensure that our customers are aware of the environmental process controls and health and safety assessments conducted throughout the life cycles of our products. In 2012, no incidents of non-compliance relating to the regulatory and voluntary codes we subscribe to concerning product and service information and labelling were recorded.

We do not convert natural forests, riparian areas, wetlands or protected areas into plantations. HCV areas are identified and preserved or enhanced, as is biological diversity. In Russia we have set aside 522,260 hectares for conservation (25% of our landholding) and 76,398 hectares in South Africa (25% of our landholding).

We use biomass energy sources such as black liquor as an alternative to fossil fuels at all of our mills. Some 58% of Mondi's fuel consumption for material operations comes from biomass and a number of our operations are completely energy self-sufficient.

Governance risks

We operate in a number of legal jurisdictions and non-compliance with legal and governance requirements in these jurisdictions could expose the Group to significant risk if not adequately managed.

The Corporate governance report on pages 66 to 79 provides a clear overview of the Group's legal and governance risk management and compliance.

Financial risks

Our trading and financing activities expose the Group to financial risks that, if left unmanaged, could adversely impact current or future earnings. These risks relate to the currencies in which we conduct our activities, interest rate and liquidity risks as well as exposure to customer credit risk.

Our approach to financial risk management is described in notes 37 and 38 of the annual financial statements.

Board of directors



Cyril Ramaphosa

David Williams

David Hathorn

Cyril Ramaphosa, 60 – Joint chairman

Appointed: May 2007

Committees: nominations

Qualifications: law graduate from the University of South Africa (Unisa), also holds honorary doctorates from a number of institutions, including the University of Pennsylvania and the University of Massachusetts

Experience: 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.

Executive chairman of Shanduka Group (Proprietary) Limited, which owns Shanduka Newsprint (Proprietary) Limited.

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.

External appointments: executive chairman of Shanduka Group (Proprietary) Limited, non-executive chairman of MTN Group Limited, non-executive director of SABMiller plc, Alexander Forbes Equity Holdings (Proprietary) Limited and Standard Bank Group Limited. Formerly a non-executive director of Lonmin plc.

David Williams, 67 – Joint chairman

Appointed: May 2007 and as joint chairman in August 2009

Committees: nominations (chairman), remuneration

Qualifications: graduated in economics from Manchester University, chartered accountant (UK)

Experience: retired as finance director of Bunzl plc in January 2006, having served on the board for 14 years, and previously a member of the Tootal management board and finance director of Tootal plc.

External appointments: non-executive director of Dubai-based DP World Limited and Meggitt plc where he is the senior independent director. He also chairs the audit committees of both companies. Formerly a non-executive director of the Peninsular & Oriental Steam Navigation Company, Dewhurst Group plc, Medeva plc, George Wimpey plc, Taylor Woodrow plc and Tullow Oil plc.

David Hathorn, 50 – Chief executive officer

Appointed: May 2007

Committees: executive (chairman), sustainable development, social & ethics

Qualifications: graduated in commerce from the University of Natal, chartered accountant (South Africa)

Experience: completed articles with Deloitte & Touche in Johannesburg in 1987. 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.

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.

External appointments: none



Andrew King

Peter Oswald

Anne Quinn

Andrew King, 43 – Chief financial officer

Appointed: October 2008

Committees: executive

Qualifications: graduated in commerce from the University of Cape Town, chartered accountant (South Africa)

Experience: completed articles with Deloitte & Touche in Johannesburg in 1994. In 1995 joined Minorco, the international arm of Anglo American, as a financial analyst, before assuming responsibility for the group's investment management activities, and transferring to their corporate finance department in 1998. He worked on a number of group M&A activities before being appointed a vice president of Anglo American Corporate Finance in 1999.

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.

External appointments: none

Peter Oswald, 50 – Chief executive officer: Europe & International Division

Appointed: January 2008

Committees: executive

Qualifications: graduated in law from the University of Vienna and in business administration from WU-Vienna Business School

Experience: began 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, was appointed chief executive of Mondi Packaging Europe in 2002, leading its subsequent integration with Frantschach into the new Mondi packaging division.

External appointments: non-executive director of Telekom Austria AG and president of respACT-austrian business council for sustainable development.

Anne Quinn CBE, 61 – Senior independent director

Appointed: May 2007 and as senior independent director in August 2009

Committees: audit, nominations, remuneration (chairman), sustainable development

Qualifications: bachelor of commerce from Auckland University and master's degree in management science from the Massachusetts Institute of Technology (MIT). Awarded a CBE for services to the natural gas industry.

Experience: early career with NZ Forest Products Limited and the US management consulting company Resource Planning Associates. Joined Standard Oil of Ohio, which was subsequently acquired by BP plc. 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. Previously a managing director of Riverstone Holdings (Europe), a private equity investment firm specialising in the renewable and conventional energy and power industries.

External appointments: non-executive director of Smiths Group plc, and former non-executive director of The BOC Group plc from 2004 to 2006.

Board of directors continued



Stephen Harris

Imogen Mkhize

John Nicholas

Stephen Harris, 54 – Non-executive director

Appointed: March 2011

Committees: audit, nominations, remuneration, sustainable development (chairman), social & ethics

Qualifications: chartered engineer, graduated in engineering from Cambridge University, master's degree in business administration from the University of Chicago, Booth School of Business

Experience: spent his early career in engineering with Courtaulds plc and then moved to the USA 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.

External appointments: chief executive officer of Bodycote plc.

Imogen Mkhize, 49 – Non-executive director

Appointed: May 2007

Committees: nominations, remuneration, social & ethics (chairman)

Qualifications: graduated in information systems from Rhodes University in 1984, an MBA from Harvard Business School in 1995. Completed a Diploma in Company Direction with the Institute of Directors/GIMT in 2000

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

External appointments: a director of Sasol Limited and of Mobile Telephone Networks (Proprietary) Limited. A member of Accenture South Africa Advisory Council. A member of Rhodes University Board of Governors and chairman of Rhodes Business School.

Formerly chairman of Richards Bay Coal Terminal, a former director of Murray & Roberts Holdings Limited and emeritus member of the Harvard Business School Global Alumni Board.

John Nicholas, 56 – Non-executive director

Appointed: October 2009

Committees: audit (chairman), nominations

Qualifications: master's degree in business administration from Kingston University, chartered accountant (UK)

Experience: 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.

External appointments: non-executive director of Hunting PLC and Rotork p.l.c., chairing the audit committees of both. He was a non-executive director of Ceres Power Holdings plc until December 2012, also chairing the audit committee.

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

Ron Traill

Philip Laubscher

Carol Hunt

John Lindahl, 53 – Group technical director

Appointed: August 2011

Committees: executive

Qualifications: graduated in pulp and paper engineering from the Technical University of Helsinki in 1985, and an MBA from Jyväskylä University from 1996

Experience: between 1985 and 2000 had an extensive career in the forest industry working in different operational managerial positions in Finland, United States 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 has 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 until 2011.

External appointments: none

Ron Traill, 58 – Chief executive officer: South Africa Division

Appointed: January 2008

Committees: executive

Qualifications: graduated in mechanical engineering and management from Dundee Colleges in Scotland in 1980

Experience: began his career as an industrial engineer with DRG Packaging Group, working in its Scottish paper mill. 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.

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

Joined Mondi in 2003 as managing director of the Štětí pulp and paper mill in the Czech Republic, also assuming responsibility for the Mondi packaging paper business in Ružomberok, Slovakia.

External appointments: none

Philip Laubscher, 57 – 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, 51 – 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

As a dual listed company operating in South Africa and the UK, Mondi has a complex structure of law and regulation to consider. From the outset the Boards took the view that the highest standard across both jurisdictions was the appropriate level against which we should measure our compliance. While this has not always been easy as governance and regulation is continually evolving and there are different areas of emphasis in South Africa and the UK, we remain comfortable that we instill the appropriate behaviours throughout the Group. Regular updates from the company secretaries are supplemented with presentations from advisers to ensure that the Boards remain on top of the latest developments and governance thinking.

We have had stable Boards during 2012, the last director change having been in 2011. As it is a relatively small Board of nine this encourages positive dynamics and enables open and robust debate in order that we reach the best possible conclusions. Strategy has been continuously examined with due regard to the sector cyclicality and wider economic constraints. For example, in 2012 we considered the opportunity to create a leading consumer packaging business which culminated in the successful acquisition of Nordenia. All directors were active in the discussions and decisions based on their knowledge of the Group and the environment in which it operates and brought to bear past experience in their individual areas of expertise.

Board meetings are very open and allow for free flowing debate of key issues. The relationship between the executives and the non-executives is mature, supportive and constructively challenging. One of the most frequent comments we received during the recent board evaluation process was the openness and transparency of the discussion and dialogue with executive management. This has created an appropriate environment that reflects the culture of Mondi where every proposal will be given a fair hearing.

Another key theme of the evaluation feedback was the consistent leadership on safety, health, environment, ethics and standards. We have a DLC sustainable development committee that meets six times each year and covers a range of areas of particular concern to the Group and the environment in which it operates. During the year Mondi Limited has also established a social and ethics committee in order to give board level oversight of matters specific to the operating environment of South Africa.

Understanding the external environment is vital and the uncertain global economic climate continued to affect businesses during 2012. The Boards accordingly remained focused on ensuring there was a regular review of financial performance with reports received on a range of issues including cash management, cash flow, Group financing arrangements and regular updates on risk and controls. The Group has a well entrenched control environment and a structured risk review programme both of which enable the Boards to have confidence that new risks can be managed and surprises minimised. The Boards' annual rolling programme ensures that regular presentations are made on a variety of topics including IT management and security, compliance procedures, in particular competition compliance, and the implementation of the business integrity policy. We have strong and committed chairmanship of all our committees, who report back to the Boards after each committee meeting to ensure that the Boards are properly informed.

In October the Boards had the opportunity to visit Świecie in Poland and see firsthand one of the Group's key assets, and specifically the lightweight containerboard paper machine and corrugated packaging operation, the result of a €330 million investment project completed in 2009. Also, the non-executive directors are encouraged to undertake site visits outside of the regular board programme and there have been a number of visits made during the year.

When reviewing succession the focus for the Boards included diversity in its broadest sense. We have strong female representation on the Boards with Anne Quinn and Imogen Mkhize, but recognise that more needs to be done below board level. Management are taking action, agreed with the Boards, that we hope will, over time, improve the level of diversity in the Group especially amongst the senior teams.

The Boards remain committed to the principles of transparency, integrity and accountability and support the highest standards of corporate governance and best practice. We will strive to maintain our high standards going forward.

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 (LSE) 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 69; and
- the Boards determined that the DLC sustainable development committee provided the appropriate oversight for the sustainability reporting in the Integrated report and financial statements 2012 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 financial statements 2012.

A more detailed analysis of Mondi's compliance with King III is available on the Mondi Group website at www.mondigroup.com.

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. During the year, pursuant to the requirements of the South African Companies Act 2008, Mondi Limited established a social and ethics committee. An executive committee deals with the day to day management of the Group, implementing decisions made by the Boards and managing the operational and financial performance.

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.

Corporate governance report continued

This is achieved through the matters reserved for the Boards and an established rolling agenda that is reviewed and updated regularly to accommodate changes in circumstances, governance and regulation.

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. These meetings focus particularly on the performance of the Group and executives. 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 2012, 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 2012 are listed below, together with their attendance at board meetings. As at 31 December 2012 there were nine directors: the joint chairmen, one of whom is considered to be independent, four non-executive directors each considered by the Boards to be independent and three executives. 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 62 to 64.

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	Non-executive director	Yes	March 2011	1	1	6
David Hathorn	Chief executive officer	No	May 2007 ¹	1	1	6
Andrew King	Chief financial officer	No	October 2008	1	1	6
Imogen Mkhize	Non-executive director	Yes	May 2007	1	1	6
John Nicholas	Non-executive director	Yes	October 2009	1	1	6
Peter Oswald	Chief executive officer, Europe & International Division	No	January 2008	1	1	6
Anne Quinn	Senior independent non-executive director	Yes	May 2007	1	1	6

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

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. 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, governments, 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 62. There have been no changes to the commitments of Cyril Ramaphosa during the year. Cyril resigned from the board of Lonmin plc on 31 January 2013. David Williams resigned from the board of Tullow Oil plc in May 2012.

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. Following his election as deputy president of South Africa's ruling African National Congress in December 2012, Cyril reviewed his business commitments and, on 23 January 2013, notified the Boards that he would not stand for re-election at the annual general meetings of Mondi Limited and Mondi plc on 3 May 2013. Mondi has benefited greatly from Cyril's considerable knowledge and experience, particularly of the South African business environment. David Williams, together with the four independent non-executive directors, have provided the required level of independent oversight during Cyril's term of office. Cyril has always excused 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 company secretaries are appointed and removed by the Boards and are accountable to the Boards as a whole.

Pursuant to the Listings Requirements of the JSE the Boards confirm that they have reviewed and are satisfied that each of the company secretaries are competent and have the relevant qualifications and experience.

In assessing their competence the Boards have considered the expected role and duties pursuant to the requirements in both South Africa and the UK of the Companies Acts, governance codes and continuing obligations of the stock exchanges on which

Corporate governance report continued

Mondi is listed and considered their respective compliance with each of these. The Boards have reviewed their performance not only during the last year but since joining Mondi. The Boards concluded that the company secretaries have each complied with all the requirements of the Companies Acts, governance codes and continuing obligations of the relevant stock exchanges.

Each company secretary is professionally qualified and has experience gained over a number of years. Their biographies can be found on page 65.

While all directors have access to the advice and services of the company secretaries, the company secretaries maintain an arms-length relationship with the Boards. They do not take part in board deliberations and only advise on matters of governance, form or procedure. Throughout the year they have ensured compliance with board procedures, providing independent advice to the Boards on governance and compliance matters as necessary. 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 JSE and LSE.

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. During 2012 the Boards visited Mondi Świecie in Poland.

Regular updates on governance and regulation are provided to the Boards by the company secretaries and external advisers. During the year there was a particular focus on the governance developments in the UK. In addition, an economist presented views on the European economic environment. Corporate function specialists also present to the Boards at regular intervals. Directors 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 2012 amounted to €4,500 in total for the year.

Performance evaluation

The last external evaluation was carried out in 2010 by Boardroom Review. The Boards decided that an internal evaluation would be carried out in 2012.

In response to the agreed action plan from the 2011 evaluation, during the year a number of business unit presentations have been made to the Boards as well as industry specific presentations helping to put the Group's strategy into perspective. Updates on governance and regulatory changes by external advisers have also been made to the Boards.

The 2012 internal review, which included 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 2012 review were:

- the monitoring of the integration of recent acquisitions into the Mondi Group; and
- continuing to review the composition of the Boards to ensure appropriate succession and skills to complement Mondi's strategic direction.

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 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

During 2012 the committee has focused in particular on the review of the accounting treatment of acquisitions, specifically Nordenia, and disposals, the resulting changes to internal reporting necessitating a new segmental reporting structure, the transition to a new UK external audit partner and considering the impact of new accounting pronouncements. 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 also been considering the changes we need to implement in response to the new requirements of the UK Corporate Governance Code as they relate to the role and responsibilities of the committee.

John Nicholas

Chairman of the DLC audit committee

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

The DLC audit committee operates on a Group-wide basis. The committee is 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 2013. 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 (Deloitte), 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

Corporate governance report continued

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 Hunting PLC and Rotork p.l.c..

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

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. This review takes account of matters presented to the committee during the year and covers consideration of the non-financial as well as financial statements to ensure that there are consistent messages throughout the reports. During 2012 one of the key focuses for the committee has been the acquisitions, particularly Nordenia, and disposals undertaken, the accounting treatment thereof and the resulting changes in internal reporting which have necessitated a new segmental reporting structure within the Group. It also has responsibility for reviewing the effectiveness of the Group's system of internal control 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 57 to 61. 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 covered by the committee during the 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 2012 financial year;
- considering the potential impact of new accounting pronouncements and receiving updates on technical changes;
- oversight of the Mondi Group Integrated report and financial statements 2012, 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 audit fees for the 2012 year end and the engagement letters;
- reviewing the effectiveness, independence and objectivity of the external auditors and considering their reappointment 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 2012 and 2013; reports received via Speakout (the Group's confidential reporting hotline for all stakeholders); and reports on fraud;

- reviewing the effectiveness and experience of the chief financial officer and the finance function;
- reviewing the competition compliance programme; and
- reviewing elements of the Group's code of business ethics reserved for review by the committee and the implementation of the business integrity policy.

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. The committee reviewed the audit plan, in particular for 2012 discussing with Deloitte the audit scope, audit risks, materiality, goodwill impairment review and revenue recognition. The committee has focused their review on the material acquisitions and disposals effected during the year and the resulting change to the Group's segmental reporting, which were areas identified by Deloitte as primary audit risks. Representatives from Deloitte 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 which then has 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 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. For the 2012 reporting year a new senior audit partner has been in place. 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, anticipating that it may be appropriate to put the audit out to tender ahead of the next rotation of the senior audit partner in 2016. 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 be proposed at the annual general meetings of Mondi Limited and Mondi plc, to be held in May 2013.

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 authorities from the 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. 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 125 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 and removal of the heads of internal audit (the equivalent of the chief audit executive as envisaged by King III). The internal audit team plan and undertake audits of the businesses to ensure that the controls operating in the businesses are appropriate, effective and comply 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 Speakout cases. 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. The last external review of the internal audit function was carried out in 2010 by PricewaterhouseCoopers. That review concluded positively on the effectiveness of the internal audit function while making some recommendations to further improve on this. Since that review the committee has monitored progress with the implementation of the recommendations. The committee has concluded that the heads of internal audit provide effective leadership of the internal audit function which remains effective in carrying out its remit.

Corporate governance report continued

DLC nominations committee

With no changes to the composition of the Boards during 2012 the primary focus of the committee was on the continuing evaluation and monitoring of board performance, the ongoing evaluation of the skill set of the Boards and ensuring that the challenges of succession are being addressed.

David Williams

Chairman of the DLC nominations committee

Members	Committee member since	DLC nominations committee (four meetings)
Stephen Harris	March 2011	4
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

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. While 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 2012. There had been no material concerns raised during the 2011 evaluation process or that had arisen during 2012 that it was considered would warrant an external perspective and review. The outcome of the review, as explained in more detail above, was considered by the committee and an action plan recommended to the Boards.

A number of regular matters were reviewed by the committee in accordance with its terms of reference. In particular, succession planning for the executives and senior management was debated and consideration was given to the time commitment required from each director. 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. In 2012 the review also considered diversity within the senior management teams and the pipeline of successors.

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 with consideration being given to ensuring the Boards have the appropriate skills and experience to continue to manage the challenges of the Group.

The committee continued to be of the view that, in line with best practice, all directors should stand for re-election at the annual general meetings of Mondi Limited and Mondi plc.

As noted above, Cyril Ramaphosa has notified the Boards that he will not stand for re-election at the annual general meetings of Mondi Limited and Mondi plc on 3 May 2013. The process of finding a replacement for Cyril has commenced in line with the procedure agreed by the Boards.

Appointments to the Boards

There have been no changes to the composition of the Boards during 2012.

The Boards have an established procedure for the appointment of new directors that is managed by the DLC nominations committee. In accordance with this procedure the DLC nominations committee is required to review the composition of the Boards and consider the skills, background and experience required. Potential candidates from a variety of sources may be considered, usually initially by the joint chairmen and senior independent director, with a short list of candidates interviewed before narrowing the search to one or two potential candidates who would then be seen by other non-executive and executive directors. Reports would then be made to the DLC nominations committee on each of the possible candidates. The committee would consider the relative strength of candidates before recommending an appointment 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, although Mondi now follows governance best practice with all directors standing for re-election by shareholders at each annual general meeting.

Diversity

As a global organisation operating in 30 countries, 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. As the management of people is seen as a function and responsibility of line management, so is the creation of a culture that embraces diversity.

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 (B-BBEE), 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 2012, 20% of our employees were women (2011: 21%) and 16% of our senior managers were women (2011: 18%). We also have two female directors representing 22% of the Boards. While our aim will be to maintain this level of female representation going forward, it remains important that the composition of the Boards includes the right mix of skills, knowledge and experience and it may not always be appropriate to consider diversity on the Boards only in terms of gender.

The Boards have continued to monitor the Mondi talent pool and have 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 considers the needs of women in business and how best Mondi can support their career development and provide a more family friendly and flexible working environment. The establishment of a kindergarten at the Mondi corporate office in Vienna, Austria is one example of putting these proposals into practice.

Diversity has become an integral part of the Group's leadership programmes, with new training modules at the Mondi Academy such as 'Intercultural Diversity & International Business Competence' contributing to a wider understanding of diversity within Mondi. There are also new development programmes targeted at female employees and an increasing involvement with universities to encourage female graduates to consider careers within the Group.

During 2013 it is planned to communicate more widely within the Group the flexible working programme and supporting initiatives. The Boards will also be evaluating the content of a diversity policy. While it is recognised that there is more work to do Mondi believes that continually sharing best practice, networking and sharing experiences both internally and externally we are making progress.

Corporate governance report continued

DLC remuneration committee

Members	Committee member since	DLC remuneration committee (four meetings)
Stephen Harris	March 2011	4
Imogen Mkhize	May 2007	4
Anne Quinn (chairman)	May 2007	4
David Williams	May 2007	4

The DLC remuneration committee operates on a Group-wide basis. The committee met four times during the year and plans to meet four times in 2013 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 80 to 94.

DLC sustainable development committee

Members	Committee member since	DLC sustainable development committee (six meetings)
Stephen Harris (chairman)	March 2011	6
David Hathorn	May 2007	6
Anne Quinn	August 2009	6

The DLC sustainable development committee operates on a Group-wide basis. The committee met six times during the year and plans to meet six times in 2013. The committee has responsibility for overseeing the Group's policy, targets and performance on safety, health, the environment, social responsibility, other sustainable development matters and business ethics.

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

A summary report from the directors on the Group's sustainability practices is set out in the Sustainable development review on pages 31 to 43 and further details, including a full review of Mondi's sustainability activities and progress in 2012, 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 65. The committee is chaired by David Hathorn and met twelve times during the year, with nine meetings scheduled for 2013.

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.

Mondi Limited social and ethics committee

In compliance with Regulation 43 of the South African Companies Act, 2012 saw the establishment of the social and ethics committee for Mondi Limited. The focus during this time was on understanding the requirements of the Act relating to the committee, and getting a proper understanding of the policies, practices and procedures currently in place in Mondi Limited in respect of the remit of the committee.

Imogen Mkhize

Chairman of the Mondi Limited social and ethics committee

Members	Committee member since	Mondi Limited social and ethics committee (two meetings)
Stephen Harris	February 2012	2
David Hathorn	February 2012	2
Imogen Mkhize (chairman)	February 2012	2

Following changes in South African company law the committee was established as a statutory committee of Mondi Limited. The committee met twice during the year and has two meetings scheduled for 2013.

The committee has responsibility for monitoring Mondi Limited's activities with regard to matters relating to social and economic development, good corporate citizenship, the environment, health and public safety, including the impact of Mondi Limited's activities and of its products and services, consumer relationships, including its advertising, public relations and compliance with consumer protection laws, as well as labour and employment. There is a certain amount of overlap between the responsibilities of the committee and that of the DLC audit committee and the DLC sustainable development committee. In fulfilling its duties the committee has reference to the deliberations of the above respective committees, and to reports specifically requested from management.

The committee operates under formal terms of reference. During the short term of its existence the committee performed a high level review of Mondi Limited's current policies, practices and procedures, as well as the means of monitoring and reporting thereon, relating to:

- the 10 principles set out in the United Nations Global Compact Principles;
- the OECD recommendations regarding corruption;
- the South African Employment Equity Act;
- the South African Broad-Based Black Economic Empowerment Act;
- the promotion of equality, prevention of unfair discrimination, and reduction of corruption;
- the contribution to development of the communities in which its activities are predominately conducted or within which its products or services are predominantly marketed;
- sponsorships, donations and charitable giving;
- the environment, health and public safety;
- consumer relationships;
- labour and employment, including Mondi Limited's standing in terms of decent work and working conditions, its employment relationships and its contribution toward the educational development of its employees.

The committee was satisfied that Mondi Limited has sufficient policies, procedures and practices in place to adequately address the matters identified in its terms of reference.

The committee has developed a work plan which will ensure that it can properly fulfill its monitoring responsibilities on an ongoing basis.

Corporate governance report continued

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 2012, Mondi did not receive any requests for access to records under the South African Promotion of Access to 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 and the LSE 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 90 to 93.

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 business integrity policy and the 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.

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.

Speakout

The Group has a confidential reporting hotline operated by an independent third party called 'Speakout'. Speakout, 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 2012, 65 Speakout messages 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.

Annual general meetings

The annual general meetings of Mondi Limited and Mondi plc will be held on 3 May 2013 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 with the voting at the meetings conducted by polls. The voting results will be announced as soon as practicable following the close of both meetings and will 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 ('the Committee') for the year to 31 December 2012. The report also includes the remuneration policy for the 2013 year. The Committee has chosen to introduce the general structure and format of remuneration reporting that will apply under the UK Government's forthcoming reform of the regulations.

Mondi has again delivered strong financial performance in 2012, as detailed in other parts of the Integrated report and financial statements 2012. Mondi's Total Shareholder Return for the three years to 31 December 2012 was more than 140%, placing it above the upper quartile for companies in its sector, and Return on Capital Employed for 2012 was 13.7%. This robust financial performance is reflected in the annual bonus payments and long-term incentive vesting for executive directors. Half of the annual bonus is awarded in Mondi shares, deferred for three years.

Base salary increases for executive directors effective 1 January 2012 were below 3%. Base salary increases effective 1 January 2013 will once again not exceed 3% for the chief executive and chief executive officer Europe & International. After careful consideration, and consultation with major shareholders, the Committee has awarded the chief financial officer an exceptional, one-off increase in base salary of 8% effective 1 January 2013. This sets his base salary at £500,000, which results in overall compensation that is consistent with the median for companies of Mondi's size and international scope. This recognises Andrew's strong track record of performance in the role and the value of his contribution to the Group and its shareholders.

Despite Mondi's share price growth, the Committee has continued to set the LTIP grant sizes as a percentage of base salary for Mondi's executive directors below the market median for companies of Mondi's size, and also lower than the maximum permitted under the Plan rules.

The Committee has increased the Return on Capital Employed performance requirement to 16% (from 14%), at the top end of the scale, for LTIP grants in 2013. This is the second time the Committee has raised this 'bar' in the last three years. Half of the LTIP award is dependent on Return on Capital Employed, while the other half depends on Mondi's relative Total Shareholder Return, both measured over three years.

Currently, share awards under the LTIP do not qualify for the dividends shareholders receive. The Committee is seeking approval at the annual general meetings to apply, effective from the 2013 LTIP grant, dividend accrual equivalent to other shareholders, but only to the extent that LTIP awards meet the performance conditions.

The Committee maintains a dialogue with major shareholders on remuneration matters, and aims to ensure that pay policy for executives is clear and simple, supports the business strategy and is closely aligned to the interests of Mondi's shareholders.

The Committee would be pleased to have your support.

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 pages 89 and 94;
- the table of pension contributions in respect of executive directors on page 94; and
- the table of share awards granted to executive directors and associated footnotes on pages 91 and 92.


Structure of the report

This report has three sections. The first section deals with the structure and role of the DLC remuneration committee. The second and third sections – the remuneration policy report and the remuneration implementation report respectively – represent a new way of structuring the remuneration report and have been introduced in accordance with forthcoming UK reporting regulations applicable to financial reporting periods ending on or after 1 October 2013.

The remuneration policy report, which will in future years be subject to a binding shareholder vote, includes: a description of the Group's remuneration policy; a policy table which outlines the features of key elements of remuneration; an outline of remuneration scenarios for executive directors at different performance levels; executive directors' shareholding requirements; the terms of executive directors' service contracts; the Group's policy on exit payments; and descriptions of how shareholder views, and the conditions of other employees in the Group, are taken into account in the Committee's deliberations about executive pay.

The remuneration implementation report details the earnings of directors in respect of the year under review.

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 are Anne Quinn (chairman of the Committee), Stephen Harris, Imogen Mkhize and David Williams, all of whom are independent non-executive directors. David Williams is joint chairman of Mondi Limited and Mondi plc and Anne Quinn is senior independent director. Philip Laubscher and Carol Hunt act as secretary to the Committee.

The Group head of reward, Paul Wessels, provides advice on remuneration policies and practices and is usually invited to attend meetings of the Committee, along with David Hathorn, the chief executive officer and Cyril Ramaphosa, joint chairman.

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

Remuneration policy report

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

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

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

Remuneration report continued

Remuneration policy table

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

The following table illustrates key elements of the remuneration policy for executive directors in accordance with reporting regulations applicable to financial reporting periods ending on or after 1 October 2013:

	Purpose and link to strategy	Operation	
Base salary	Provides core reward for the role, to attract and retain individuals with the talent and experience needed to deliver the strategy, without paying more than is necessary.	Reviewed annually, normally from 1 January. Review takes into account market median pay levels in companies of similar size and complexity, and levels of pay inflation in the market and for other employees in the Group.	
Annual bonus	Incentive and recognition for achievements relative to the annual business plan. Deferred component provides sustained alignment with shareholders.	A discretionary Bonus Share Plan (BSP) is operated. Under the BSP, executive directors may receive both cash and deferred awards of Mondi shares. The current practice is to deliver half of any award in cash and half in deferred shares, which vest after three years subject to remaining in service, and with no matching element. Claw-back provisions apply to payments or awards made since January 2011.	
Long-term incentive	Incentive and recognition for achievement of three year growth and return objectives.	A discretionary Long-Term Incentive Plan (LTIP) is operated. Individuals are considered each year for an award of shares that vest after three years subject to remaining in service, to the extent that performance conditions are met, and in accordance with the Plan rules as approved by shareholders. Claw-back provisions apply to awards made since January 2011.	
Pension	Helps ensure a market-competitive package, to support recruitment and retention of talent.	Defined contribution to pension or a cash allowance of equivalent value. Only base salary is pensionable.	
Benefits	Helps ensure a market-competitive package, to support recruitment and retention of talent.	Benefit provision is aligned to relevant market practice. Current benefits include: car allowance or company car; life insurance; medical insurance; financial planning advice. Relocation assistance is considered if an executive is required by the Group to move home locations.	

Discretionary Share Option Plans and all-employee share plans

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. The Group currently operates two HM Revenue & Customs approved all-employee share plans in the UK. Details of these plans, and the participation of eligible directors, are presented on page 93.

	Maximum opportunity	Performance metrics	Changes in year
	There is no maximum base salary. However, salaries are targeted at the mid-market range for equivalent roles, in similar companies.	Base salary increases are not determined by performance metrics. However, in determining whether any increase should be awarded, Group and individual performance is taken into account alongside other factors.	No change to policy.
	Maximum total annual bonus is 150% of base salary for the chief executive and 120% of base salary for other executive directors.	<p>Corporate performance metrics as determined by the Committee from time to time, such as EBITDA, percentage Return on Capital Employed (ROCE), and safety. These have the main weighting (currently 70% of the total).</p> <p>Individual performance is also assessed, currently with a 30% weighting.</p> <p>The policy gives the Committee the authority to select suitable performance metrics, aligned to Mondi's strategy and shareholders' interests.</p>	No change to policy.
	<p>The maximum award under the Plan is 200% of base salary to any individual in a single year.</p> <p>Individual awards, within this limit, are determined each year by the Committee.</p>	<p>Corporate performance conditions are set by the Committee for each grant. These currently comprise Total Shareholder Return against a peer group and percentage ROCE, each with a 50% weighting. The vesting outcome can also be reduced, if necessary, to reflect the general or underlying performance of the Group.</p> <p>Performance is measured over three calendar years, starting with the year of grant.</p> <p>The policy gives the Committee the authority to select suitable performance metrics, aligned to Mondi's strategy and shareholders' interests.</p>	Shareholder approval sought at 2013 AGMs to permit dividend value to accrue on awards granted from 2013 onwards, with value released only to the extent that awards vest.
	Company contributions: 30% of base salary for chief executive; 25% of base salary for other executive directors.	Pension contributions are not subject to performance metrics.	No changes to policy.
	Maximum determined by reference to market practice, avoiding paying more than is necessary.	Benefits are not subject to performance metrics.	No changes to policy.

Remuneration report continued

The most senior executives in the Group participate in the LTIP and the BSP. Both of these plans deliver part of the remuneration in Mondi shares, thereby enhancing alignment of the interests of executives with those of shareholders.

The principle of performance based pay is well-established in Mondi: more than 60% of Mondi's employees participate in a variable pay programme.

Share ownership requirements

The chief executive officer is 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 2012, all executive directors had met the shareholding requirements.

Executive directors' service contracts

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

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

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

The service contract for Peter Oswald is required under Austrian law to be for a fixed period, which expires on 30 April 2016. However, the contract has been structured in such a manner that it can be terminated on one year's notice by either party.

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

Executive director	Effective date of contract	Unexpired term/notice period
David Hathorn	3 July 2007	Terminable on 12 months' notice
Andrew King	23 October 2008	Terminable on 12 months' notice
Peter Oswald	1 January 2008	A fixed term expiring on 30 April 2016 but terminable at any time on 12 months' notice

Exit payments

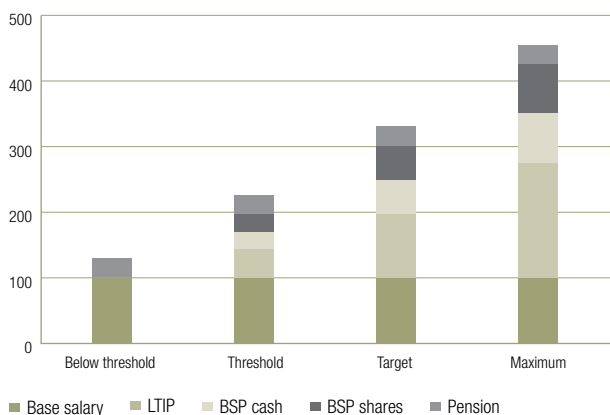
In the event of early termination of service contracts, the Group's policy is to act fairly in all circumstances. The duty to mitigate is taken into account and the Group has due regard to the requirements of legislation, regulation and good governance.

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

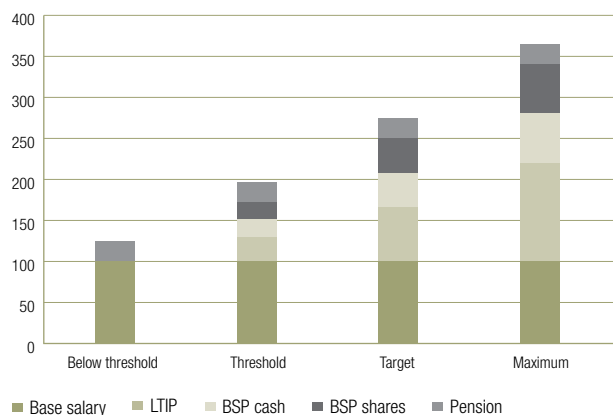
The service contract for Peter Oswald does not contain a pay in lieu of notice provision. The contract provides, in addition to such other rights as he may have on termination of the contract by his employer other than for cause, for a payment which reflects an entitlement he had in Austrian law under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

Remuneration scenarios at different performance levels (with total earnings expressed as a percentage of base salary)

CEO



Executive directors



Employee context

In accordance with the Group's remuneration policy, the remuneration of executive directors and other senior executives is set taking appropriate account of remuneration and employment conditions of other colleagues in the Group.

The Committee annually receives a report from management on pay practices across the Group, including salary levels and trends, collective bargaining outcomes and bonus participation. At the time that salary increases are considered, the Committee additionally receives a report on the approach management propose to adopt to general staff increases. Both these reports are taken into account in the Committee's decisions about the remuneration of executive directors and other senior executives.

Shareholder context

At the 2012 annual general meetings of Mondi Limited and Mondi plc 98.8% of votes were cast in favour of the Mondi Limited resolution to approve the remuneration policy and 98.79% of votes were cast in favour of the Mondi plc resolution to approve the remuneration report.

The Committee considers the views of shareholders in its deliberations about the remuneration of executive directors and other senior executives, and consults directly with major shareholders when any material changes to policy are being considered. In December 2012 the Committee consulted with Mondi's 20 largest shareholders about changes that were being considered.

Remuneration report continued

Implementation report

2012 remuneration of executive directors¹

	Base salary	Cash benefits ²	Non-cash benefits	Pension contribution	Annual cash bonus	Grant value of BSP award	Value of 2009 LTIP vesting (valued at grant price) ³	Share price gain on vesting LTIP award between grant and vesting dates ⁴	Total
David Hathorn	€1,013,129	€95,716	€20,122	€303,939	€612,390	€612,390	€1,402,231	€5,154,452	€9,214,369
Andrew King	€570,656	€51,045	€16,424	€142,664	€272,519	€272,519	€496,274	€1,824,250	€3,646,351
Peter Oswald	€847,000	€49,812	€39,964	€211,753	€403,816	€403,816	€883,487	€3,496,635	€6,336,283

¹ This table reports executive directors' remuneration in accordance with forthcoming UK reporting regulations applicable to financial reporting periods ending on or after 1 October 2013. Mondi is, for the current report, required also to disclose executive directors' remuneration under existing regulations. This table is on page 94 of this report.

² Includes cash amounts of equivalent value to dividends on vested BSP shares over the vesting period. See table of share awards granted to executive directors on pages 91 and 92.

³ Value of the award made at the start of the three year performance cycle, based on the number of shares (92.03% of the total awarded) that vested.

⁴ Enhanced value in the 2009 LTIP award that vested based on share price appreciation during the holding period. The value of Mondi plc shares increased from £1.29 to £6.04, and the value of Mondi Limited shares from R23.01 to R71.19 during this time.

Current salary levels, and increases awarded in January 2013, are as follows:

	From 1 January 2013	From 1 January 2012	Increase
David Hathorn ¹	£846,000	£822,000	2.9%
Andrew King ^{1,2}	£500,000	£463,000	8.0%
Peter Oswald	€872,000	€847,000	3.0%

¹ David Hathorn's and Andrew King's salaries are denominated in pounds sterling. In the remuneration tables on pages 86 and 94 euro amounts are reported based on exchange rates on the dates actual payments were made.

² After consultation with major shareholders, the Committee implemented a one-off exceptional base salary increase for Andrew King. The Committee examined market data for UK-listed and dual-listed companies with comparable sales turnover to Mondi and which, like Mondi, have the majority of their operations and sales outside the UK. The new base salary places Andrew approximately at market median for this peer group. However, Andrew's total target and maximum remuneration remain below the market median. Andrew has a strong track record of performance in the role, and his experience and skills have significant value for Mondi and its shareholders.

Performance measures used for variable pay, and performance against these measures

For the BSP in respect of 2012 performance (which determines the value of the annual cash bonus and the deferred shares awarded in the table on page 86) the performance measures and achievement levels were:

	BSP performance measures				
	EBITDA (Fin)	ROCE (Fin)	Safety	Personal	Total
<i>Weight</i>	30	30	10	30	100
Outcomes:					
David Hathorn	24.46	30	0	26	80.46
Andrew King	24.46	30	0	25	79.46
Peter Oswald	24.46	30	0	25	79.46

Detail of variable pay awarded in the year

Annual Bonus (BSP)

One half of the value of the 2012 bonus was deferred in Mondi shares for three years in accordance with the BSP provisions outlined in the remuneration policy report table on pages 82 and 83.

David Hathorn remains eligible for a bonus of up to 150% of salary in respect of 2013 and the other executive directors for a bonus of up to 120% of salary. Half of any bonus earned will be paid out in cash and the other half will be deferred for three years in conditional Mondi shares.

For 2013, the existing bonus structure will be retained.

Long-Term Incentive Plan (LTIP)

The LTIP awards that were made in 2009, with a three year performance period that ended on 31 December 2011, were reviewed by the Committee in February 2012 against the (equally weighted) relative Total Shareholder Return (TSR) and Return on Capital Employed (ROCE) performance conditions. Maximum performance was achieved against the TSR target and 84.06% of maximum was achieved against the ROCE target. 92.03% of the shares under award therefore vested in March 2012 and the remainder lapsed.

The maximum award that can be made to any LTIP participant in any year is equal to two times salary. For 2012, the award made to David Hathorn was 175% of salary and the awards made to Andrew King and Peter Oswald were 120% of salary.

For the LTIP awards made in 2012, the performance conditions are based on two performance measures of equal weight – TSR and ROCE, measured over a three year performance period ending on 31 December 2014. 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.

Remuneration report continued

The TSR performance condition is based on the Group's TSR relative to a group of competitor companies. For the 2009, 2010, 2011 and 2012 LTIP awards, the following group of companies was selected:

Billerud	Norske Skog
David S Smith	Portucel
Holmen	Sappi
International Paper	SCA (2009, 2010, 2011) ²
Mayr-Melnhof	Smurfit Kappa
MeadWestvaco	Stora Enso
M-Real	UPM
Domtar (2010, 2011 and 2012) ¹	Weyerhaeuser (2009) ¹

¹ As previously reported, Weyerhaeuser was replaced with Domtar in 2010 as its business structure is considered closer to Mondi's.

² SCA was removed from the peer group for 2012 and subsequent awards following the sale of SCA Packaging to DS Smith.

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).

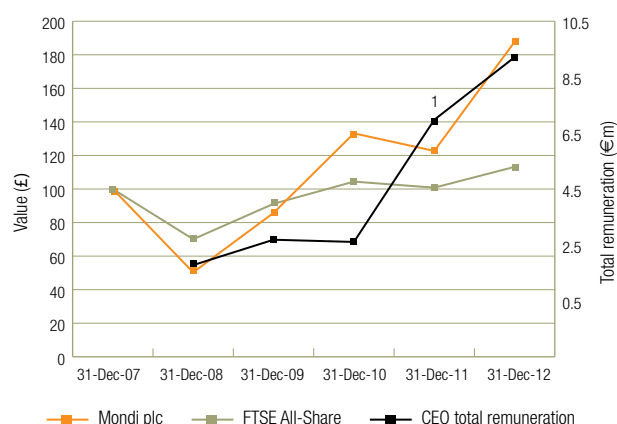
The Committee intends to retain these performance conditions for the LTIP awards to be made in 2013, with a more demanding ROCE performance range of 10% to 16% rather than 10% to 14%. For 2013, the Committee intends to make an award to David Hathorn of 185% of salary and of 130% of salary to Andrew King and Peter Oswald.

For the 2013 LTIP awards, following the acquisition of Nordenia and the Duropack operations in Germany and the Czech Republic and the disposal of Aylesford Newsprint, Norske Skog will be excluded from the peer group and Amcor and Bemis will be added.

Comparison of CEO pay with Mondi's TSR performance

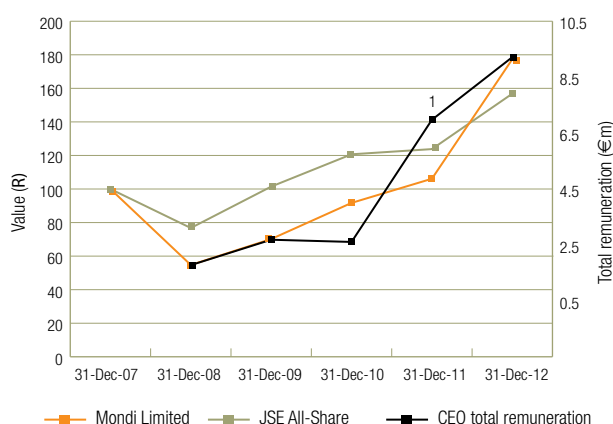
The following charts show the progression of David Hathorn's total remuneration for every year from 2008 (the first full year for which Mondi data is available) against Mondi's TSR.

FTSE All-Share Index



This graph shows the value, by 31 December 2012 of £100 invested in Mondi plc on 31 December 2007 compared with the value of £100 invested in the FTSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

JSE All-Share Index



This graph shows the value, by 31 December 2012 of R100 invested in Mondi Limited on 31 December 2007 compared with the value of R100 invested in the JSE All-Share Index. The other points plotted are the values at intervening financial year-ends.

¹ Includes €3.9 million payout under a one-off Co-Investment Plan initiated at the time of Mondi's listing.

Relative importance of spend on pay

€ million	2012	2011	% change
Profits ¹	336	340	(1)
Dividends	128	126	2
Overall remuneration expenditure ²	868	824	5

¹ Underlying earnings attributable to equity holders of Mondi Limited and Mondi plc.

² Remuneration expenditure for all Mondi Group employees.

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
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
Mondi Limited social and ethics 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 supplement is payable for additional commitments in relation to this role.

² Fees are determined in pounds sterling. In the remuneration table below, 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.

2012 remuneration of non-executive directors

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

	2012 ¹			2011 ²		
	Fees	Other benefits	Total	Fees	Other benefits	Total
Cyril Ramaphosa	€316,497	–	€316,497	€293,131	–	€293,131
David Williams	€316,497	–	€316,497	€293,131	–	€293,131
Stephen Harris ³	€95,618	–	€95,618	€68,140	–	€68,140
Imogen Mkhize	€84,601	–	€84,601	€80,354	–	€80,354
John Nicholas	€98,150	–	€98,150	€90,196	–	€90,196
Anne Quinn	€104,698	–	€104,698	€96,162	–	€96,162

¹ Fees were not increased in 2012. Non-executive directors' fees are denominated in pounds sterling. Reported euro equivalent values are based on exchange rates on the dates payments were made.

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 For 2011, the fee paid to Stephen Harris covers the period from his appointment on 1 March 2011 until 31 December 2011.

Remuneration report continued

Directors' share interests

The beneficial and non-beneficial share interests of the directors and their connected persons as at 1 January 2012 or, if later, on appointment, and as at 31 December 2012 were as follows:

Executive directors

		Shareholding at 1 January 2012	Shareholding at 31 December 2012	Total shareholdings as a percentage of salary (%) ¹	Deferred BSP shares outstanding at 31 December 2012	Deferred LTIP shares outstanding at 31 December 2012
David Hathorn	Mondi Limited	0	25,000		91,401	260,732
	Mondi plc	553,922	218,922	174	212,595	606,746
Andrew King	Mondi Limited	208	208		39,601	98,669
	Mondi plc	138,330	208,330	272	92,021	232,788
Peter Oswald	Mondi plc	133,833	252,756	205	215,226	527,593

¹ Against a multiple of 150% of salary for David Hathorn and 100% of salary for Andrew King and Peter Oswald, as defined in the share ownership requirements.

Non-executive directors

Mondi Limited

	Shareholding at 1 January 2012	Shareholding at 31 December 2012
Imogen Mkhize	3,222	3,222
Total	3,222	3,222

Mondi plc

	Shareholding at 1 January 2012	Shareholding at 31 December 2012
Cyril Ramaphosa	7,050	7,050
David Williams	5,000	5,000
Stephen Harris	1,000	1,000
Imogen Mkhize	2,000	2,000
John Nicholas	6,000	6,000
Anne Quinn	11,882	11,882
Total	32,932	32,932

There has been no change in the interests of the directors and their connected persons between 31 December 2012 and the date of this report.

Advisers to the Committee

The Committee is authorised to seek information from any director or 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 2012, the following advisers provided services to the Committee:

- New Bridge Street ('NBS') – provision of remuneration advice and benchmarking data. NBS are a signatory to, and adhere to, the Code of Conduct in relation to executive remuneration consultancy in the UK.
- Towers Watson – provision of remuneration benchmarking data.

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 2012.

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 2012	Release date
David Hathorn	BSP	38,122	–	–	38,122	2301	Mar 09	–	Mar 12
	BSP	37,347	–	–	–	4596	Mar 10	37,347	Mar 13
	BSP	29,838	–	–	–	6206	Mar 11	29,838	Mar 14
	BSP	–	24,216	–	–	6979	Mar 12	24,216	Mar 15
	LTIP	256,070	–	20,409	235,661	2301	Mar 09	–	Mar 12
	LTIP	105,628	–	–	–	4596	Mar 10	105,628	Mar 13
	LTIP	80,749	–	–	–	6206	Mar 11	80,749	Mar 14
	LTIP	–	74,355	–	–	6979	Mar 12	74,355	Mar 15
Andrew King	BSP	15,741	–	–	15,741	2301	Mar 09	–	Mar 12
	BSP	15,328	–	–	–	4596	Mar 10	15,328	Mar 13
	BSP	13,096	–	–	–	6206	Mar 11	13,096	Mar 14
	BSP	–	11,177	–	–	6979	Mar 12	11,177	Mar 15
	LTIP	90,628	–	7,223	83,405	2301	Mar 09	–	Mar 12
	LTIP	40,188	–	–	–	4596	Mar 10	40,188	Mar 13
	LTIP	29,762	–	–	–	6206	Mar 11	29,762	Mar 14
	LTIP	–	28,719	–	–	6979	Mar 12	28,719	Mar 15

¹ For note 1, please refer to the table on page 92.

Remuneration report continued

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 2012	Release date
David Hathorn	BSP	110,393	–	–	110,393	129	Mar 09	–	Mar 12
	BSP	89,752	–	–	–	374	Mar 10	89,752	Mar 13
	BSP	66,689	–	–	–	543	Mar 11	66,689	Mar 14
	BSP	–	56,154	–	–	584	Mar 12	56,154	Mar 15
	LTIP	735,950	–	58,655	677,295	129	Mar 09	–	Mar 12
	LTIP	253,844	–	–	–	374	Mar 10	253,844	Mar 13
	LTIP	180,479	–	–	–	543	Mar 11	180,479	Mar 14
	LTIP	–	172,423	–	–	584	Mar 12	172,423	Mar 15
Andrew King	BSP	45,582	–	–	45,582	129	Mar 09	–	Mar 12
	BSP	36,835	–	–	–	374	Mar 10	36,835	Mar 13
	BSP	29,269	–	–	–	543	Mar 11	29,269	Mar 14
	BSP	–	25,917	–	–	584	Mar 12	25,917	Mar 15
	LTIP	260,465	–	20,759	239,706	129	Mar 09	–	Mar 12
	LTIP	96,578	–	–	–	374	Mar 10	96,578	Mar 13
	LTIP	69,614	–	–	–	543	Mar 11	69,614	Mar 14
	LTIP	–	66,596	–	–	584	Mar 12	66,596	Mar 15
Peter Oswald	BSP	115,923	–	–	115,923	129	Mar 09	–	Mar 12
	BSP	92,683	–	–	–	374	Mar 10	92,683	Mar 13
	BSP	66,504	–	–	–	543	Mar 11	66,504	Mar 14
	BSP	–	56,039	–	–	584	Mar 12	56,039	Mar 15
	LTIP	662,417	–	52,795	609,622	129	Mar 09	–	Mar 12
	LTIP	226,055	–	–	–	374	Mar 10	226,055	Mar 13
	LTIP	153,991	–	–	–	543	Mar 11	153,991	Mar 14
	LTIP	–	147,547	–	–	584	Mar 12	147,547	Mar 15

¹ The value on award of the BSP awards set out in this table is included in the tables of executive directors' remuneration on pages 86 and 94.

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	€66,012.73 (£55,196.47)
Andrew King	€27,257.17 (£22,791.05)
Peter Oswald	€49,557.08

All-employee share plans

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

Share Incentive Plan ('SIP')

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

Sharesave

Employees resident in the UK are also eligible to participate in a Sharesave scheme when offered. Participants enter into a savings contract under which they choose to save a fixed amount of between £5 and £250 per month by deduction from their salary. They are granted an option to acquire Mondi plc shares to the value of their savings at a specified price. In normal circumstances the option can only be exercised during the six months following the end of the savings contract. The last Sharesave invitation was made in 2009.

Eligible directors are permitted to participate in both the SIP and Sharesave and details of their participation are presented below.

SIP

Details of shares purchased and awarded to executive directors in accordance with the terms of the SIP.

	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 2012
David Hathorn	3,238	263	263	–	3,764
Andrew King	3,682	263	263	–	4,208

¹ Since 1 January 2013 up to the date of this report, David Hathorn has acquired 34 partnership shares and was awarded 34 matching shares. Andrew King acquired 34 partnership shares and was awarded 34 matching shares.

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 2012	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

Remuneration report continued

Remuneration for the year ended 31 December 2012

Executive directors' remuneration excluding proceeds of share schemes¹

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

		Base salary	Annual cash bonus	Grant value of BSP award	Other cash benefits	Other non-cash benefits	Total
David Hathorn	2012	€1,013,129	€612,390	€612,390	€29,703	€20,122	€2,287,734
	2011	€920,175	€538,483	€538,483	€27,720	€15,607	€2,040,468
Andrew King	2012	€570,656	€272,519	€272,519	€23,788	€16,424	€1,155,906
	2011	€517,599	€248,524	€248,524	€22,199	€17,722	€1,054,568
Peter Oswald	2012	€847,000	€403,816	€403,816	€255	€39,964	€1,694,851
	2011	€824,000	€386,028	€386,028	€255	€35,346	€1,631,657

¹ The table includes all remuneration received in respect of the years ended 31 December 2012 and 31 December 2011, whether received from Mondi Limited or Mondi plc, excluding proceeds of share schemes. For total remuneration including share schemes see page 86. The above table is required under existing UK regulation whereas the table on page 86 will be required under UK regulation for reporting periods ending after 1 October 2013.

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 2012 and 2011 are:

	Group contribution	
	2012	2011
David Hathorn	€303,939	€276,053
Andrew King	€142,664	€129,400
Peter Oswald	€211,753	€206,000

Mondi Limited and Mondi plc share prices

The closing price of a Mondi Limited ordinary share on the JSE Limited on 31 December 2012 was R92.16 and the range during the period between 1 January 2012 and 31 December 2012 was R56.70 (low) and R95.00 (high).

The closing price of a Mondi plc ordinary share on the London Stock Exchange on 31 December 2012 was £6.70 and the range during the period between 1 January 2012 and 31 December 2012 was £4.60 (low) to £6.84 (high).

This report was approved by the Boards on 20 February 2013 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 72 days' purchases outstanding at 31 December 2012 (59 days at 31 December 2011), based on the average daily amount invoiced by suppliers.

Share capital

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

Substantial interests

Mondi Limited

Based on the Mondi Limited share register at 31 December 2012, 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	25,664,238	21.69
Coronation Fund Managers	17,001,482	14.37
Allan Gray	8,471,112	7.16

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 2012, 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	%
Investec Asset Management (Proprietary) Limited	17,789,698	4.84
Allan Gray Unit Trust Management (RF) Proprietary Limited	17,301,819	4.70
AXA S.A.	17,210,471	4.69
Standard Life Investments Limited	16,476,021	4.49
Norges Bank	11,025,198	3.00
Sanlam Investment Management (Proprietary) Limited	10,936,128	3.00

The following changes in interests have been notified between 1 January 2013 and the date of this report:

Date	Shareholder	Shares	%
30 January 2013	Allan Gray Unit Trust Management (RF) Proprietary Limited	10,993,007	2.99

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 in the facility, these being: Barclays Capital; BNP Paribas; Citigroup Global Markets Limited; Commerzbank Aktiengesellschaft; Deutsche Bank AG, London Branch; Erste Group Bank AG; HSBC Bank plc, Raiffeisen Bank International AG; The Royal Bank of Scotland plc and Unicredit Bank Austria AG.

Additional disclosures continued

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 2013.

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 2012

With the exception of the proposed final dividend for 2012, included in note 12 to the financial statements, there have been no material reportable events since 31 December 2012.

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 192 to 195 of this report.

Annual general meetings

The annual general meeting of Mondi Limited will be held at 11.30 (SA time) on Friday 3 May 2013 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 10.30 (UK time) on Friday 3 May 2013 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

Company secretary

Mondi Limited

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20 February 2013

Carol Hunt

Company secretary

Mondi plc

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Registered No. 6209386

20 February 2013

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Directors' responsibility statement

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

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

- Under the Companies Act of South Africa 2008, 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 the 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, and have been audited in compliance with the applicable requirements of the Companies Act of South Africa 2008 and the UK Companies Act 2006.

The Boards confirm that to the best of their 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.

The Group's combined and consolidated financial statements, and related notes 1 to 41, were approved by the Boards and authorised for issue on 20 February 2013 and were signed on its behalf by:

David Hathorn
Director

20 February 2013

Andrew King
Director

20 February 2013

Independent auditors' report to the shareholders of Mondi Limited

Report on the financial statements

We have audited the financial statements of Mondi Limited set out on pages 102 to 178, which comprise the combined and consolidated statement of financial position as at 31 December 2012, 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, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the combined and consolidated financial statements, whether due to fraud or error. In making these assessments, the auditors consider internal control relevant to the Group's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 financial statements present fairly, in all material respects, the financial position of the Mondi Group as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2012, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche

Registered Auditors
Per Bronwyn Kilpatrick
Partner
Sandton

20 February 2013

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

National Executive **LL Bam** Chief Executive **AE Swiegers** Chief Operating Officer **GM Pinnock** Audit **DL Kennedy** Risk Advisory **NB Kader** Tax **TP Pillay** Consulting **K Black** Clients & Industries **JK Mazzocco** Talent & Transformation **CR Beukman** Finance **M Jordan** Strategy **S Gwala** Special Projects **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 Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

Independent auditor's report to the members of Mondi plc

We have audited the financial statements of Mondi plc for the year ended 31 December 2012 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 2012 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;
- 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; and
- 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 2012 and on the information in the directors' remuneration report that is described as having been audited.

Nicola Mitchell (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
20 February 2013

Combined and consolidated income statement

for the year ended 31 December 2012

		2012			2011		
€ million	Notes	Before special items	Special items (note 5)	After special items	Before special items	Special items (note 5)	After special items
Continuing operations							
Group revenue	2	5,807	–	5,807	5,739	–	5,739
Materials, energy and consumables used		(3,049)	–	(3,049)	(2,998)	–	(2,998)
Variable selling expenses		(523)	–	(523)	(511)	–	(511)
Gross margin		2,235	–	2,235	2,230	–	2,230
Maintenance and other indirect expenses		(279)	–	(279)	(272)	–	(272)
Personnel costs	4	(840)	(16)	(856)	(808)	(4)	(812)
Other net operating expenses		(193)	(10)	(203)	(186)	(2)	(188)
Depreciation, amortisation and impairments		(355)	(1)	(356)	(342)	(48)	(390)
Operating profit/(loss)	2;3	568	(27)	541	622	(54)	568
Non-operating special items	5	–	(64)	(64)	–	(1)	(1)
Net income from associates	16	1	–	1	1	–	1
Total profit/(loss) from operations and associates							
Net finance costs	6	(107)	–	(107)	623	(55)	568
Investment income		10	–	10	(111)	–	(111)
Foreign currency losses		(2)	–	(2)	30	–	30
Finance costs		(115)	–	(115)	–	–	–
					(141)	–	(141)
Profit/(loss) before tax							
Tax (charge)/credit	8	(91)	(1)	(92)	512	(55)	457
Profit/(loss) from continuing operations		371	(92)	279	(102)	2	(100)
					410	(53)	357
Discontinued operation							
Profit from discontinued operation	9			–			43
Net gain on distribution of discontinued operation							14
							29
Profit for the financial year							
				279			400
Attributable to:							
Non-controlling interests				35			70
Equity holders of the parent companies				244			330
Earnings per share (EPS) for profit attributable to equity holders of the parent companies							
From continuing operations							
Basic EPS (€ cents)	10			50.5			57.5
Diluted EPS (€ cents)	10			50.3			56.8
From continuing and discontinued operations							
Basic underlying EPS (€ cents)	10			69.6			68.1
Diluted underlying EPS (€ cents)	10			69.3			67.3
From continuing and discontinued operations							
Basic EPS (€ cents)	10			50.5			66.1
Diluted EPS (€ cents)	10			50.3			65.3
Basic headline EPS (€ cents)							
Basic headline EPS (€ cents)	10			63.4			69.9
Diluted headline EPS (€ cents)	10			63.1			69.1

Combined and consolidated statement of comprehensive income

for the year ended 31 December 2012

€ million	Notes	2012	2011
Profit for the financial year		279	400
Other comprehensive income/(expense):			
Items that may subsequently be reclassified to the combined and consolidated income statement:			
Effect of cash flow hedges	26	2	12
Gains on available-for-sale investments	26	1	–
Exchange differences on translation of foreign operations	26	49	(196)
Share of other comprehensive income of associates	26	–	(1)
Tax effect thereof	26	–	(4)
Items that will not subsequently be reclassified to the combined and consolidated income statement:			
Actuarial losses on post-retirement benefit schemes	26	(61)	(18)
Effect of surplus restriction on post-retirement benefit schemes	26	26	(3)
Tax effect thereof	26	8	4
Other comprehensive income/(expense) for the financial year, net of tax	26	25	(206)
Total comprehensive income for the financial year		304	194
Attributable to:			
Non-controlling interests		42	43
Equity holders of the parent companies		262	151

Combined and consolidated statement of financial position

as at 31 December 2012

€ million	Notes	2012	2011
Intangible assets	13	695	238
Property, plant and equipment	14	3,706	3,377
Forestry assets	15	311	297
Investments in associates	16	6	10
Financial asset investments	17	27	33
Deferred tax assets	24	10	5
Retirement benefits surplus	25	–	8
Derivative financial instruments	22	–	3
Total non-current assets		4,755	3,971
Inventories	18	779	637
Trade and other receivables	19	1,007	829
Current tax assets		10	6
Financial asset investments	17	1	1
Cash and cash equivalents		56	191
Derivative financial instruments	22	4	10
Assets held for sale	32	2	–
Total current assets		1,859	1,674
Total assets		6,614	5,645
Short-term borrowings	21	(281)	(286)
Trade and other payables	20	(1,025)	(891)
Current tax liabilities		(66)	(78)
Provisions	23	(67)	(43)
Derivative financial instruments	22	(4)	(8)
Total current liabilities		(1,443)	(1,306)
Medium and long-term borrowings	21	(1,640)	(737)
Retirement benefits obligation	25	(253)	(202)
Deferred tax liabilities	24	(344)	(310)
Provisions	23	(33)	(35)
Derivative financial instruments	22	(1)	–
Other non-current liabilities		(24)	(20)
Total non-current liabilities		(2,295)	(1,304)
Total liabilities		(3,738)	(2,610)
Net assets		2,876	3,035
Equity			
Share capital and stated capital	27	542	542
Retained earnings and other reserves		2,030	2,044
Total attributable to equity holders of the parent companies		2,572	2,586
Non-controlling interests in equity		304	449
Total equity		2,876	3,035

The Group's combined and consolidated financial statements, and related notes 1 to 41, were approved by the Boards and authorised for issue on 20 February 2013 and were signed on its behalf by:

David Hathorn
Director

Andrew King
Director

Mondi Limited company registration number:
Mondi plc company registered number:

1967/013038/06
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Combined and consolidated statement of cash flows

for the year ended 31 December 2012

€ million	Notes	2012	2011
Cash generated from operations	33a	845	917
Dividends from associates	16	1	2
Dividends from other investments	6	1	–
Income tax paid		(107)	(85)
Net cash generated from operating activities		740	834
Cash flows from investing activities			
Investment in property, plant and equipment	2	(298)	(263)
Investment in intangible assets	13	(9)	(5)
Investment in forestry assets	15	(60)	(42)
Investment in financial asset investments	17	(7)	(13)
Proceeds from the disposal of property, plant and equipment and intangible assets		15	9
Proceeds from the disposal of financial asset investments	17	4	8
Acquisition of subsidiaries, net of cash and cash equivalents	29	(381)	(12)
Acquisition of associates, net of cash and cash equivalents		–	(2)
Proceeds from the disposal of businesses, net of cash and cash equivalents	31	(16)	17
Disposal of discontinued operation's cash and cash equivalents		–	(38)
Loan repayments from related parties	17	9	–
Loan repayments from/(advances to) external parties	17	16	(1)
Interest received		3	9
Other investing activities		(1)	2
Net cash used in investing activities		(725)	(331)
Cash flows from financing activities			
Repayment of short-term borrowings	33c	(132)	(135)
Proceeds from medium and long-term borrowings	33c	614	123
Repayment of medium and long-term borrowings	33c	(65)	(127)
Interest paid		(92)	(106)
Dividends paid to equity holders of the parent companies	12	(128)	(126)
Purchases of treasury shares		(34)	(12)
Dividends paid to non-controlling interests	12	(29)	(43)
Non-controlling interests bought out	30	(298)	(1)
Net realised (loss)/gain on held for trading derivatives		(9)	9
Other financing activities		–	(1)
Net cash used in financing activities		(173)	(419)
Net (decrease)/increase in cash and cash equivalents		(158)	84
Cash and cash equivalents at beginning of year ¹		117	24
Cash movement in the year	33c	(158)	84
Effects of changes in foreign exchange rates	33c	4	9
Cash and cash equivalents at end of year¹		(37)	117

Note:

¹ Cash and cash equivalents include overdrafts and cash flows from disposal groups and are 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 2012

€ 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 2011	646	1,916	201	2,763	461	3,224
Total comprehensive income for the year	–	330	(179)	151	43	194
Dividends paid	–	(126)	–	(126)	(43)	(169)
Effect of dividend in specie distributed (see note 9)	(104)	(101)	–	(205)	–	(205)
Issue of shares under employee share schemes	–	12	(12)	–	–	–
Purchases of treasury shares	–	(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
Total comprehensive income for the year	–	244	18	262	42	304
Dividends paid	–	(128)	–	(128)	(29)	(157)
Issue of shares under employee share schemes	–	9	(9)	–	–	–
Purchases of treasury shares	–	(34)	–	(34)	–	(34)
Disposal of businesses (see note 31)	–	–	15	15	–	15
Non-controlling interests bought out	–	(141)	–	(141)	(157)	(298)
Reclassification	–	(12)	12	–	–	–
Other	–	2	10	12	(1)	11
At 31 December 2012	542	1,981	49	2,572	304	2,876

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 9 and 10 had no impact on the stated capital and share capital of Mondi Limited and Mondi plc respectively.

² Other reserves are analysed further below.

€ million	Other reserves ¹					Total
	Share-based payment reserve	Cumulative translation adjustment reserve	Cash flow hedge reserve	Post-retirement benefits reserve	Statutory reserves ²	
At 1 January 2011	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
Total comprehensive income for the year	–	42	2	(27)	1	18
Mondi share schemes' charge	10	–	–	–	–	10
Issue of shares under employee share schemes	(9)	–	–	–	–	(9)
Disposal of businesses (see note 31)	–	15	–	–	–	15
Reclassification	–	–	–	12	–	12
At 31 December 2012	18	(151)	–	(71)	253	49

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 2012 was an increase in non-controlling interests related to total comprehensive income for the year of €7 million (2011: decrease of €27 million).

² Statutory reserves consist of the merger reserve of €259 million (2011: €259 million) and other sundry reserves in deficit of €6 million (2011: deficit of €7 million).

Notes to the combined and consolidated financial statements

for the year ended 31 December 2012

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). 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 Group has also complied with the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Reporting Standards Council of South Africa. The combined and consolidated financial statements have been prepared on a going concern basis as discussed in the chief financial officer's report, under the heading 'Going concern'.

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

Basis of consolidation

Dual listed structure

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

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.

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. Changes in the Group's interests in subsidiaries that do not result in a change in control are accounted for as equity transactions. Any resulting difference between the amount by which the non-controlling interests is adjusted for and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent companies.

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 applying 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.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

1 Accounting policies continued

Associates

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

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

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

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 CO₂e credits

Revenue generated from the sale of green energy and CO₂e credits issued under international schemes are recorded as income within other net operating expenses in the combined and consolidated income statement when ownership rights pass to the buyer.

Investment income

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

Dividend income

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

Business combinations

Identifiable net assets

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

Cost of a business combination

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

Goodwill

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

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

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

1 Accounting policies continued

Impairment of goodwill

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

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

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

Property, plant and equipment

Property, plant and equipment comprise land and buildings, 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.

Licences, other intangibles and research and development expenditure

Licences and other intangibles are measured initially at purchase consideration 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 are amortised on a systematic basis over the economic life of the related development.

Impairment of tangible and intangible assets excluding goodwill

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

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.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

1 Accounting policies continued

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 and comparative information is 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, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is defined as the selling price less any estimated costs to sell.

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 reporting period.

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, net of deferred tax, 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.

1 Accounting policies continued

Past service costs are recognised immediately to the extent that the benefits are already vested or 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 and the movement in deferred tax.

Current tax

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

The Group paid Secondary Tax on Companies (STC) until 31 March 2012 on dividends declared by South African entities net of dividends received, based on the applicable STC rate.

The STC regime was replaced with a new Dividend Tax (DT) regime, effective 1 April 2012, which constitutes a withholding tax imposed at a shareholder level but payable by the Group on behalf of the shareholder. DT is imposed in respect of any dividend approved by a South African company on or after 1 April 2012, and is 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.

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 to 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.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

1 Accounting policies continued

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. These assets are depreciated over the shorter of the lease term and the expected useful economic lives of the assets.

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.

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 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 average exchange rates for the year where these approximate the rates on the dates of the underlying 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 as a result of changes in non-market vesting conditions. 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.

1 Accounting policies continued

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.

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-, 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 risks. 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.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

1 Accounting policies continued

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 to which the derivative relates.

Embedded derivatives that are not designated as hedges and are required to be separately measured from the host contracts are initially recognised in the combined and consolidated statement of financial position at fair value and remeasured at each reporting date. Subsequent fair value changes are recognised in the combined and consolidated income statement within net finance costs.

Where appropriate, the embedded derivative and its host contract are presented on a net basis in the combined and consolidated statement of financial position.

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 in the combined and consolidated income statement when the forecast transaction is ultimately recognised. If a hedge transaction is no longer expected to occur, the net cumulative gain or loss deferred in equity is included immediately in the 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.

1 Accounting policies continued

Special items

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

Earnings per share (EPS)

Basic EPS

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

Diluted EPS

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

Underlying and headline EPS

Underlying EPS excludes the impact of special items and is a non-IFRS measure. It is included to provide an additional basis on which to measure the Group's earnings performance. The presentation of headline EPS is mandated under the JSE Listings Requirements and is calculated in accordance with Circular 3/2012, '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, 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, Interpretations and Circulars effective during 2012

The Group has adopted the following amendments to published Standards and Circulars during the current year, none of which had a significant impact on the Group's results:

- IFRS 1 – First-time Adoption of International Financial Reporting Standards
- IAS 1 – Presentation of Financial Statements
- IAS 12 – Income Taxes
- Circular 3/2012 – Headline Earnings

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

The following amendments to published Standards are not expected to have a significant impact on the Group's results, and will become effective for annual reporting periods beginning on or after 1 January 2013:

- IFRS 7 – Financial Instruments: Disclosures
- IAS 1 – Presentation of Financial Statements
- IAS 16 – Property, Plant and Equipment
- IAS 32 – Financial Instruments: Presentation
- IAS 34 – Interim Financial Reporting

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

1 Accounting policies continued

The following Standards and amendments to published Standards, which will become effective for annual reporting periods beginning on or after 1 January 2013, and their impact on the Group's results are:

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

IFRS 10 and IFRS 11 and the related consequential amendments to IAS 27 and IAS 28 broaden the concept of control and eliminate the option of proportionate consolidation for joint ventures, except in certain circumstances. The impact of these Standards will be that the Mondi Shanduka Newsprint joint venture will be consolidated with effect from 1 January 2013, with prior periods restated.

IFRS 12 prescribes additional disclosures about the Group's significant investments and will not impact the Group's financial results.

IFRS 13 requires that, in instances where fair value is prescribed by another Standard, the principles of this Standard be applied to that fair value measurement. The Group does not expect IFRS 13 to have a significant impact on its fair value measurements.

IAS 19 (revised) will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation. It is likely that, following the replacement of expected returns on plan assets with a net finance cost in the combined and consolidated income statement, the profit for the period will be reduced and accordingly other comprehensive income increased.

The following amendments to published Standards are not expected to have a significant impact on the Group's results, and will become effective for annual reporting periods beginning on or after 1 January 2014:

- IFRS 2 – Share-based payments
- IFRS 8 – Operating Segments
- IAS 1 – Presentation of Financial Statements
- IAS 7 – Statement of Cash Flows
- IAS 12 – Income Taxes
- IAS 16 – Property, Plant and Equipment
- IAS 24 – Related Party Disclosures
- IAS 32 – Financial Instruments: Presentation
- IAS 36 – Impairment of Assets
- IAS 38 – Intangible Assets

The following amendments to published Standards are not expected to have a significant impact on the Group's results, and will become effective for annual reporting periods beginning on or after 1 January 2015:

- IFRS 3 – Business Combinations

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 2015:

- IFRS 9 – Financial Instruments

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 information about 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.

1 Accounting policies continued

Estimated residual values and useful economic lives

The carrying values of certain tangible fixed assets are sensitive to assumptions relating to projected residual values and useful economic lives, which determine the depreciable amount and the rate at which capital expenditure is depreciated. 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.

Acquisition date fair values of identifiable intangible assets acquired through business combinations

The acquisition date fair values of the identifiable intangible assets acquired through business combinations were determined using conventional best practice valuation techniques with independent qualified valuers utilised where appropriate. The acquisition date fair values of these intangible assets are sensitive to certain key valuation assumptions including, but not limited to, the projected net cash flows of the assets, the assumed discount rates and the related underlying risks of realising the assets' intrinsic economic value.

The carrying values of these intangible assets (see note 29) are therefore provisional in nature and subject to evaluation post acquisition. Any resulting adjustments will, if necessary, be made within 12 months of the acquisition date.

Estimated impairment of goodwill, tangible and intangible assets

For the year ended 31 December 2012 the Group incurred net asset impairment costs of €5 million (2011: €49 million) (see note 14) and goodwill impairment costs of €nil (2011: €nil) (see note 13).

The Group assesses annually whether goodwill, tangible and intangible assets have suffered any impairment, in accordance with the stated Group accounting policy. The recoverable amounts of goodwill allocated to cash-generating units, intangible assets 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, and intangible assets have suffered any impairment. Indications of impairment are inherently judgemental and require management to assess both internal and external sources of information.

Fair value of owned forestry assets

For the year ended 31 December 2012 the Group recorded a fair value adjustment of €40 million (2011: €49 million). Forestry assets as at 31 December 2012 totalled €311 million (2011: €297 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	2012
Effect of €1 increase in net selling price	14
Effect of 1% increase in conversion factor (hectares to tonnes)	3
Effect of 1% increase in discount rate	(3)

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

1 Accounting policies continued

Retirement benefits

As at 31 December 2012 the retirement benefits surplus was €nil (2011: €8 million) and the retirement benefits obligation was €253 million (2011: €202 million) (see note 25).

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 25.

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 structure of the Group.

Following the completion of the acquisition of Nordenia International AG (Nordenia) on 1 October 2012 (refer note 29) the Europe & International business was reorganised to comprise four operating segments: Packaging Paper, Fibre Packaging, Consumer Packaging and Uncoated Fine Paper. Furthermore, the disposal of Aylesford Newsprint on 2 October 2012 (refer note 31) resulted in the previously reported Newsprint segment no longer meeting any of the quantitative thresholds required for classification as a separate operating segment. The remaining newsprint joint venture, Mondi Shanduka Newsprint, has accordingly been incorporated into the South Africa Division due to similarities in geographical location, production processes and the integrated nature of the production facilities. The Group's segmental information for the year ended 31 December 2011 has been restated to reflect these reorganisations.

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	Revenues ¹
Europe & International	
Packaging Paper	– Packaging paper
Fibre Packaging	– Fibre packaging
Consumer Packaging	– Consumer packaging
Uncoated Fine Paper	– Uncoated fine paper
	– Pulp
	– Newsprint
South Africa Division	– Packaging paper
	– Pulp
	– Uncoated fine paper
	– Newsprint ²

Notes:

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

² South Africa Division derives newsprint revenue from external sales only.

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.

2 Operating segments continued

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).

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

Operating segment revenue

€ million	2012			(Restated) 2011		
	Segment revenue	Internal revenue ¹	External revenue ²	Segment revenue	Internal revenue ¹	External revenue ²
Europe & International						
Packaging Paper	1,896	(469)	1,427	2,006	(469)	1,537
Fibre Packaging	1,860	(42)	1,818	1,881	(33)	1,848
Consumer Packaging	502	(4)	498	372	(5)	367
Uncoated Fine Paper	1,466	(13)	1,453	1,429	(20)	1,409
Intra-segment elimination	(528)	528	–	(526)	526	–
Total Europe & International	5,196	–	5,196	5,162	(1)	5,161
South Africa Division	653	(109)	544	645	(155)	490
Segments total	5,849	(109)	5,740	5,807	(156)	5,651
Unallocated:						
Disposed operation	67	–	67	88	–	88
Inter-segment elimination	(109)	109	–	(156)	156	–
Group total	5,807	–	5,807	5,739	–	5,739

Notes:

¹ Intra-group 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 product type presented below.

External revenue by product type

€ million	2012	(Restated) 2011
Products		
Fibre packaging	1,785	1,810
Packaging paper	1,393	1,438
Uncoated fine paper	1,355	1,337
Consumer packaging	498	367
Pulp	276	263
Newsprint	233	251
Other ¹	267	273
Group total	5,807	5,739

Note:

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

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

2 Operating segments continued

External revenue by location of customer

€ million	2012	2011
Revenue		
Africa		
South Africa ¹	405	303
Rest of Africa	236	268
Africa total	641	571
Western Europe		
Germany	791	810
United Kingdom ¹	271	278
Rest of western Europe	1,445	1,529
Western Europe total	2,507	2,617
Emerging Europe	1,180	1,144
Russia	592	556
North America	270	243
South America	41	30
Asia and Australia	576	578
Group total	5,807	5,739

Note:

¹ These revenues, which total €676 million (2011: €581 million), are attributable to the countries in which the Group's parent entities are domiciled.

External revenue by location of production

€ million	2012	2011
Revenue		
Africa		
South Africa ¹	652	617
Rest of Africa	8	10
Africa total	660	627
Western Europe		
Austria	1,025	1,110
United Kingdom ¹	120	147
Rest of western Europe	1,179	1,090
Western Europe total	2,324	2,347
Emerging Europe		
Poland	766	794
Rest of emerging Europe	1,086	1,075
Emerging Europe total	1,852	1,869
Russia	729	703
North America	196	159
Asia and Australia	46	34
Group total	5,807	5,739

Note:

¹ These revenues, which total €772 million (2011: €764 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.

2 Operating segments continued

Operating profit from continuing operations before special items

€ million	2012	(Restated) 2011
Europe & International		
Packaging Paper	227	295
Fibre Packaging	101	86
Consumer Packaging	19	25
Uncoated Fine Paper	191	205
Total Europe & International	538	611
South Africa Division	68	63
Corporate & other businesses	(33)	(33)
Segments total	573	641
Disposed operation	(5)	(19)
Operating profit from continuing operations before special items	568	622
Special items (see note 5)	(91)	(55)
Net income from associates (see note 16)	1	1
Net finance costs (see note 6)	(107)	(111)
Group profit from continuing operations before tax	371	457

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.

€ million	EBITDA		Depreciation, amortisation and impairments ¹	
	2012	(Restated) 2011	2012	(Restated) 2011
Europe & International				
Packaging Paper	321	392	94	97
Fibre Packaging	168	149	67	63
Consumer Packaging	45	37	26	12
Uncoated Fine Paper	300	309	109	104
Total Europe & International	834	887	296	276
South Africa Division	123	117	55	53
Corporate & other businesses	(32)	(32)	1	1
Segments total	925	972	352	330
Unallocated:				
Disposed operation	(2)	(8)	3	12
Group total from continuing operations	923	964	355	342

Note:

¹ Excluding impairments included in special items (see note 5).

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

2 Operating segments continued

€ million	Operating lease charges		Green energy sales and disposal of emissions credits	
	2012	(Restated) 2011	2012	(Restated) 2011
Europe & International				
Packaging Paper	13	32	67	79
Fibre Packaging	8	9	–	–
Consumer Packaging	3	1	–	–
Uncoated Fine Paper	7	7	9	5
Total Europe & International	31	49	76	84
South Africa Division	5	6	–	–
Corporate & other businesses	2	1	–	–
Group total from continuing operations	38	56	76	84

Reconciliation of total profit from operations and associates to EBITDA

€ million	2012	2011
Total profit from operations and associates	478	568
Special items (excluding associates) (see note 5)	91	55
Depreciation, amortisation and impairments ¹	355	342
Share of associates' net income	(1)	(1)
EBITDA	923	964

Note:

¹ Excluding impairments included in special items (see note 5).

Operating margin¹

%	2012	(Restated) 2011
Europe & International		
Packaging Paper	12.0	14.7
Fibre Packaging	5.4	4.6
Consumer Packaging	3.8	6.7
Uncoated Fine Paper	13.0	14.3
South Africa Division	10.4	9.8
Group	9.8	10.8

Note:

¹ Operating margin is underlying operating profit divided by revenue.

2 Operating segments continued

Return on capital employed (ROCE)¹

%	2012	(Restated) 2011
Europe & International		
Packaging Paper	17.9	24.4
Fibre Packaging	12.5	11.0
Consumer Packaging	6.2	15.0
Uncoated Fine Paper	16.7	16.7
South Africa Division	9.9	8.7
Group	13.7	15.0

Note:

¹ Return on capital employed (ROCE) is trailing 12 month underlying operating profit, including share of associates' net income, divided by trailing 12 month average trading capital employed and for segments has been extracted from management reports. Capital employed is adjusted for impairments in the year and spend on the strategic projects which are not yet in production.

Operating segment assets

€ million	2012		(Restated) 2011	
	Segment assets ¹	Net segment assets	Segment assets ¹	Net segment assets
Europe & International				
Packaging Paper	1,829	1,466	1,593	1,249
Fibre Packaging	1,229	958	1,131	866
Consumer Packaging	1,019	872	175	131
Uncoated Fine Paper	1,450	1,248	1,473	1,283
Intra-segment elimination	(120)	–	(131)	–
Total Europe & International	5,407	4,544	4,241	3,529
South Africa Division	962	811	1,007	860
Corporate & other businesses	5	1	6	3
Inter-segment elimination	(30)	–	(40)	–
Segments total	6,344	5,356	5,214	4,392
Unallocated:				
Disposed operation	–	–	51	27
Investments in associates	6	6	10	10
Deferred tax assets/(liabilities)	10	(334)	5	(305)
Other non-operating assets/(liabilities) ²	170	(315)	140	(291)
Group trading capital employed	6,530	4,713	5,420	3,833
Financial asset investments	27	27	33	33
Net debt	57	(1,864)	192	(831)
Group	6,614	2,876	5,645	3,035

Notes:

¹ Segment assets are operating assets and as at 31 December 2012 consist of property, plant and equipment of €3,706 million (2011: €3,377 million), intangible assets of €695 million (2011: €238 million), forestry assets of €311 million (2011: €297 million), retirement benefits surplus of €nil (2011: €8 million), inventories of €779 million (2011: €637 million) and operating receivables of €854 million (2011: €708 million).

² Other non-operating assets consist of derivative assets of €4 million (2011: €13 million), current income tax receivables of €10 million (2011: €6 million), other non-operating receivables of €153 million (2011: €121 million) and assets held for sale of €2 million (2011: €nil). Other non-operating liabilities consist of derivative liabilities of €5 million (2011: €8 million), non-operating provisions of €94 million (2011: €68 million), current income tax liabilities of €66 million (2011: €78 million) and other non-operating payables and deferred income of €320 million (2011: €277 million).

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

2 Operating segments continued

Non-current non-financial assets

€ million	2012			(Restated) 2011		
	Non-current non-financial assets ¹	Segment assets	Net segment assets	Non-current non-financial assets ¹	Segment assets	Net segment assets
Africa						
South Africa ²	793	938	786	825	974	827
Rest of Africa	7	20	19	6	17	16
Africa total	800	958	805	831	991	843
Western Europe						
Austria	477	828	611	453	796	576
United Kingdom ²	39	69	60	37	77	66
Rest of western Europe	929	1,359	1,136	398	671	525
Western Europe total	1,445	2,256	1,807	888	1,544	1,167
Emerging Europe						
Poland	623	805	703	469	594	511
Slovakia	408	456	388	439	490	427
Rest of emerging Europe	451	628	511	342	482	388
Emerging Europe total	1,482	1,889	1,602	1,250	1,566	1,326
Russia	855	985	925	836	957	917
North America	84	162	136	57	105	91
Asia and Australia	46	94	81	19	51	48
Segments total	4,712	6,344	5,356	3,881	5,214	4,392

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 €832 million, €1,007 million and €846 million respectively (2011: €862 million, €1,051 million and €893 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		Capital expenditure cash payments ²	
	2012	(Restated) 2011	2012	(Restated) 2011
Europe & International				
Packaging Paper	249	66	89	67
Fibre Packaging	144	82	76	72
Consumer Packaging	621	15	28	15
Uncoated Fine Paper	60	51	58	61
Total Europe & International	1,074	214	251	215
South Africa Division	106	71	46	29
Segments total	1,180	285	297	244
Unallocated:				
Disposed and discontinued operations	1	20	1	19
Group total	1,181	305	298	263

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 accruals, business combinations, interest capitalised and investments in intangible and forestry assets.

3 Operating profit from continuing operations before special items

Underlying operating profit from continuing operations includes:

€ million	2012	2011
Depreciation of property, plant and equipment (see note 14)	(334)	(332)
Profit on disposal of tangible and intangible assets	4	–
Amortisation of intangible assets (see note 13)	(17)	(10)
Impairment of property, plant and equipment (excluding special items) (see note 14)	(4)	–
Operating lease charges (see note 2)	(38)	(56)
Research and development expenditure	(12)	(12)
Restructuring and closure costs (excluding special items)	(4)	(1)
Net foreign currency gains/(losses) (see note 7)	2	(4)
Green energy sales and disposal of emissions credits (see note 2)	76	84
Fair value gains on forestry assets (see note 15)	40	49
Felling costs (see note 15)	(64)	(65)

Total revenue from continuing operations, as defined under IAS 18, 'Revenue', consisting of Group revenue, sale of green energy and disposal of CO₂e credits, interest income and dividend income, was €5,887 million (2011: €5,832 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 underlying operating profit.

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

€ million	2012	2011
Fees payable to the auditors for the audit of Mondi Limited's and Mondi plc's annual financial statements	0.5	0.4
United Kingdom	0.4	0.3
South Africa	0.1	0.1
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	3.4	2.9
Total audit fees	3.9	3.3
Audit related assurance services	0.2	0.2
Tax services		
– taxation compliance services	0.2	0.4
– other taxation advisory services	–	0.1
Other services	0.1	0.1
Total non-audit fees	0.5	0.8
Total fees	4.4	4.1

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.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

4 Employee numbers and costs

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

<i>hundreds</i>	2012	(Restated) 2011
By business segment		
Europe & International		
Packaging Paper	48	49
Fibre Packaging	75	77
Consumer Packaging	17	12
Uncoated Fine Paper	77	85
Total Europe & International	217	223
South Africa Division	19	19
Corporate & other businesses	1	1
Segments total	237	243
Unallocated:		
Disposed operation	1	2
Group total from continuing operations	238	245

The principal locations of employment were:

<i>hundreds</i>	2012	2011
South Africa and rest of Africa	20	20
Western Europe	70	70
Eastern Europe	66	66
Russia	69	78
North America	9	8
Asia and Australia	4	3
Group total from continuing operations	238	245

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

<i>€ million</i>	2012	2011
Within operating costs		
Wages and salaries	661	636
Social security costs	152	144
Defined contribution pension plan costs (see note 25)	11	12
Defined benefit pension plan costs (see note 25)	6	6
Share-based payments (see note 28)	10	10
Total within operating costs	840	808
Within special items		
Personnel costs relating to restructuring (see note 5)	16	4
Total within special items	16	4
Within net finance costs		
Post-retirement medical plan costs (see note 25)	6	6
Defined benefit pension plan costs (see note 25)	6	6
Total within net finance costs	12	12
Total from continuing operations	868	824

4 Employee numbers and costs continued

Compensation for the Boards and key management^{1;2}

€ million	2012	2011
Salaries and short-term employee benefits	5.3	7.2
Non-executive directors	1.0	0.9
Defined contribution plan payments	0.9	0.9
Defined benefit plan payments	–	0.2
Termination payments	–	0.7
Social security	1.4	1.2
Share-based payments	4.3	4.6
Total	12.9	15.7

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.

² The information presented in the table above, in conjunction with the audited information included in 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	2012	2011
Operating special items		
Asset impairments	(1)	(48)
Restructuring and closure costs:		
Restructuring and closure costs excluding related personnel costs	(4)	(5)
Personnel costs relating to restructuring	(16)	(4)
Reversal of restructuring and closure costs excluding related personnel costs	–	3
Transaction costs incurred on the acquisition of Nordenia	(11)	–
Gain on insurance settlement	5	–
Total operating special items	(27)	(54)
Non-operating special items		
Loss on disposals (see note 31)	(70)	(1)
Gain on sale of land	6	–
Total non-operating special items	(64)	(1)
Total special items from continuing operations before tax and non-controlling interests	(91)	(55)
Tax (see note 8)	(1)	2
Total special items attributable to equity holders of the parent companies	(92)	(53)

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

5 Special items continued

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

€ million	2012	(Restated) 2011
Europe & International		
Packaging Paper	–	(11)
Fibre Packaging	(16)	(8)
Consumer Packaging	(11)	(5)
Uncoated Fine Paper	–	2
Total Europe & International	(27)	(22)
South Africa Division	6	–
Segments total	(21)	(22)
Unallocated:		
Disposed operation	(70)	(33)
Group total from continuing operations	(91)	(55)

Operating special items

Asset impairments of €1 million and restructuring costs of €20 million in the Industrial Bags segment of the Fibre Packaging business in Belgium, Spain, France and Mexico were recognised. These costs were partly offset by a €5 million gain on the settlement of an insurance claim.

Transaction costs incurred by the Consumer Packaging business on the acquisition of Nordenia amounted to €11 million.

Non-operating special items

A gain of €6 million was realised on the sale of land in the South Africa Division as part of its ongoing settlement of land claims. The settlements were reached using the sale and leaseback framework developed by Mondi and the South African Government which ensures that title to the land is transferred to the claimant and that Mondi is paid a fair price for the land and secures a continued fibre supply for its mills.

The disposal of Aylesford Newsprint resulted in a loss on disposal of €70 million. The shares in Aylesford Newsprint were sold for a nominal consideration satisfied in cash at completion.

6 Net finance costs

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

€ million	2012	2011
Investment income		
Interest income		
Bank deposits, loan receivables and other	3	9
Total interest income	3	9
Dividend income	1	–
Expected return on defined benefit arrangements (see note 25)	6	21
Total investment income	10	30
Foreign currency losses		
Foreign currency losses	(2)	–
Total foreign currency losses (see note 7)	(2)	–
Finance costs		
Interest expense		
Interest on bank overdrafts and loans	(98)	(108)
Interest on defined benefit arrangements (see note 25)	(18)	(33)
Total interest expense	(116)	(141)
Less: interest capitalised (see note 14)	1	–
Total finance costs	(115)	(141)
Net finance costs from continuing operations	(107)	(111)

The weighted average interest rate applicable to interest on general borrowings capitalised for the year ended 31 December 2012 is 5.04% (2011: no interest capitalised), related to investments in Austria.

7 Foreign exchange

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

€ million	2012	2011
Net operating foreign currency gains/(losses) (see note 3)	2	(4)
Net financing foreign currency losses ¹ (see note 6)	(2)	–
Net foreign currency losses from continuing operations	–	(4)

Note:

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

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

8 Tax charge

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

€ million	2012	2011
UK corporation tax at 24.5% (2011: 26.5%)	–	1
SA corporation tax at 28% (2011: 28%)	17	7
Overseas tax	66	84
Current tax (excluding tax on special items)	83	92
Deferred tax in respect of the current period (excluding tax on special items)	16	22
Deferred tax in respect of prior period over provision	(8)	(12)
Total tax charge before special items	91	102
Current tax on special items	2	–
Deferred tax on special items	(1)	(2)
Total tax charge/(credit) on special items (see note 5)	1	(2)
Total tax charge from continuing operations	92	100

(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 2012, calculated on profit from continuing operations before tax before special items and including net income from associates, is 20% (2011: 20%).

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 24.9% (2011: 26.6%), as follows:

€ million	2012	2011
Profit from continuing operations before tax	371	457
Tax on profit from continuing operations before tax calculated at the weighted average UK and SA corporation tax rate of 24.9%¹ (2011: 26.6%¹)	92	121
Tax effect of net income from associates, calculated at 24.9% (2011: 26.6%)	–	–
Tax effects of:		
Tax in Mondi Limited on intercompany interest received from Mpack Limited	–	4
Expenses not deductible/(taxable) for tax purposes	6	(7)
Intangible amortisation and non-qualifying depreciation	(7)	(11)
Special items not deductible	5	1
Other non-deductible expenses	8	3
Non-taxable income	(1)	(1)
Temporary difference adjustments	35	14
Changes in tax rates ²	7	–
Current year tax losses and other temporary differences not recognised	36	26
Prior period tax losses and other temporary differences not previously recognised	(8)	(12)
Other adjustments	(40)	(31)
Current tax prior period adjustments	(11)	6
South African Secondary Tax on Companies	–	4
Tax incentives	(20)	(20)
Effect of differences between local rates and UK and SA rates	(19)	(28)
Other adjustments	10	7
Tax charge from continuing operations for the financial year	92	100

Notes:

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.

² For the year ended 31 December 2012, changes in tax rates principally relate to adjustments made to deferred tax balances based on substantively enacted future changes in corporation tax rates in Slovakia and Sweden.

The Group's share of its associates' tax charge included within net income from associates for the year ended 31 December 2012 is €nil (2011: €nil).

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).

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 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.

Prior to the demerger, Mpact paid interest of €13 million for the year ended 31 December 2011 to Mondi Limited in respect of intercompany financing provided, which eliminated on consolidation and thus was not taken into consideration in the tables below.

The results of the discontinued operation were:

€ million	2011
Revenue	296
Expenses	(282)
Profit before tax	14
Related tax charge	–
Profit after tax from discontinued operation	14
Gain on distribution of discontinued operation	29
Related tax charge	–
Net gain on distribution of discontinued operation	29
Total profit attributable to discontinued operation	43
Attributable to:	
Non-controlling interests	–
Equity holders of the parent companies	43

Earnings per share from the discontinued operation were (see note 10):

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

Notes to the combined and consolidated financial statements continued

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9 Discontinued operation continued

Details of the discontinued operation disposed were as follows:

€ million	2011
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 discontinued operation distributed	(170)
Fair value gain on discontinued operation distributed	35
Transaction costs	(6)
Net fair value gain on discontinued operation distributed	29

10 Earnings per share

As 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.

IFRS requires that the number of shares subject to the consolidation be adjusted from the effective date of the consolidation, hence for the years under review the effect of the share consolidation was included from 1 August 2011.

million	Number of shares	
	2012	2011
Basic number of ordinary shares outstanding¹	483	499
Effect of dilutive potential ordinary shares	2	6
Diluted number of ordinary shares outstanding	485	505

Note:

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.

(a) From continuing operations

€ cents per share	2012	2011
Profit from continuing operations for the financial year attributable to equity holders of the parent companies		
Basic EPS	50.5	57.5
Diluted EPS	50.3	56.8
Underlying earnings for the financial year		
Basic EPS	69.6	68.1
Diluted EPS	69.3	67.3

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:

€ million	Earnings	
	2012	2011
Profit for the financial year attributable to equity holders of the parent companies	244	330
Profit from discontinued operation (see note 9)	–	(14)
Net gain on distribution of discontinued operation (see note 9)	–	(29)
Profit from continuing operations for the financial year attributable to equity holders of the parent companies	244	287
Special items (see note 5)	91	55
Related tax (see note 5)	1	(2)
Underlying earnings for the financial year	336	340

(b) From continuing and discontinued operations

€ cents per share	2012	2011
Profit for the financial year attributable to equity holders of the parent companies		
Basic EPS	50.5	66.1
Diluted EPS	50.3	65.3
Headline earnings for the financial year¹		
Basic EPS	63.4	69.9
Diluted EPS	63.1	69.1

Note:

¹ The presentation of headline EPS is mandated under the JSE Listings Requirements. Headline earnings has been calculated in accordance with Circular 3/2012, 'Headline Earnings', as issued by the South African Institute of Chartered Accountants.

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

€ million	Earnings	
	2012	2011
Profit for the financial year attributable to equity holders of the parent companies	244	330
Net gain on distribution of discontinued operation (see note 9)	–	(29)
Special items (see note 5)	91	55
Special items: restructuring and closure costs	(20)	(6)
Transaction costs attributable to the acquisition of Nordenia (see note 29)	(11)	–
Profit on disposal of tangible and intangible assets	(4)	–
Impairments not included in special items	4	1
Related tax	2	(2)
Headline earnings for the financial year	306	349

Notes to the combined and consolidated financial statements continued

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11 Alternative measure of earnings per share

The directors 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 of Mpack and related share consolidation had occurred on 1 January 2011. This is deemed appropriate as it is the continuing operations of the Group, after taking the impact of the share consolidation into consideration, which form the basis of the performance of the Group. This approach enables 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 the Mondi Group Integrated report and financial statements for the year ended 31 December 2011 for the pro-forma financial information and independent reporting accountants' report thereon.

In addition, the effect of the recapitalisation of Mpack resulted in a repayment of intercompany debt by Mpack 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 on 1 January 2011.

The demerger and related share consolidation had no impact on the Group's results for the year ended 31 December 2012.

€ million	Earnings	
	2012	2011
Underlying earnings for the financial year	336	340
Tax saving by Mondi Limited on intercompany interest received from Mpack ¹	–	4
Saving of interest paid on net debt at 8.6% per annum	–	3
Tax at 28% on saving of interest paid	–	(1)
Adjusted earnings for the financial year	336	346

Note:

¹ Had the recapitalisation of Mpack occurred on 1 January 2011, Mondi Limited would no longer have received interest on its intercompany loans to Mpack and thus the tax charge on the interest received would not have been incurred.

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

million	Number of shares	
	2012	2011
Basic number of ordinary shares outstanding	483	499
Adjustment for Mondi Limited share consolidation ¹	–	(17)
Adjusted basic number of ordinary shares outstanding²	483	482
Effect of dilutive potential ordinary shares	2	6
Diluted number of ordinary shares outstanding after Mondi Limited share consolidation	485	488

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.

11 Alternative measure of earnings per share continued

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

<i>€ cents per share</i>	2012	2011
Earnings per share – alternative measure for the financial year		
Basic EPS – alternative measure	69.6	71.8
Diluted EPS – alternative measure	69.3	70.9

12 Dividends

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

<i>€ million</i>	2012	2011
Final dividend paid (in respect of prior year)	85	86
Interim dividend paid	43	40
Final dividend proposed for the year ended 31 December¹	92	86
Paid to non-controlling interests	29	43

<i>€ cents per share</i>	2012	2011
Final dividend paid (in respect of prior year)	17.75	16.50
Interim dividend paid	8.90	8.25
Final dividend proposed for the year ended 31 December¹	19.10	17.75

Note:

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 2013 and therefore has not been included as a liability in the Group's combined and consolidated statement of financial position.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

13 Intangible assets

2012/€ million	Goodwill	Licences and other intangibles ^{1,2}	Total
Cost			
At 1 January	477	146	623
Acquired through business combinations (see note 29) ²	356	105	461
Additions	–	9	9
Disposal of assets	–	(1)	(1)
Reclassification	(3)	5	2
Currency movements	5	(1)	4
At 31 December	835	263	1,098
Accumulated amortisation and impairments			
At 1 January	275	110	385
Charge for the year	–	17	17
Disposal of assets	–	(1)	(1)
Reclassification	(3)	3	–
Currency movements	2	–	2
At 31 December	274	129	403
Net book value as at 31 December	561	134	695

2011/€ million	Goodwill	Licences and other intangibles ¹	Total
Cost			
At 1 January	559	153	712
Acquired through business combinations (see note 29)	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

Notes:

¹ 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.

² Intangible assets acquired through business combinations during the year ended 31 December 2012 comprise €51 million for patents, €45 million for customer relationships and €4 million for order backlogs. The net book values of these assets at 31 December 2012 were €49 million, €44 million and €nil respectively.

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). Following the acquisition of Nordenia in 2012, growth of 3% was assumed for Consumer Packaging given the nature of the business and its expected growth rates. Post tax cash flow projections are discounted using a post tax discount rate of 7.37% (2011: 7.73%), 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.

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. 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, or 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	2012	(Restated) 2011
Europe & International		
Consumer Packaging	281	13
Kraft Paper	84	83
Containerboard	63	–
Industrial Bags	52	51
Uncoated Fine Paper	37	36
Corrugated Packaging	25	–
Coatings	19	19
Total Europe & International	561	202
Total goodwill	561	202

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

14 Property, plant and equipment

2012/€ million	Land and buildings	Plant and equipment	Other ¹	Total
Cost				
At 1 January	1,530	5,794	414	7,738
Acquired through business combinations (see note 29)	86	232	28	346
Additions	15	75	215	305
Disposal of assets	(20)	(85)	(11)	(116)
Disposal of businesses (see note 31)	(64)	(193)	(1)	(258)
Reclassification	12	120	(171)	(39)
Currency movements	34	66	3	103
At 31 December	1,593	6,009	477	8,079
Accumulated depreciation and impairments				
At 1 January	631	3,506	224	4,361
Charge for the year	40	277	17	334
Impairments ²	1	4	–	5
Disposal of assets	(17)	(80)	(8)	(105)
Disposal of businesses (see note 31)	(47)	(181)	–	(228)
Reclassification	(1)	(5)	(31)	(37)
Currency movements	9	33	1	43
At 31 December	616	3,554	203	4,373
Net book value as at 31 December	977	2,455	274	3,706

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 29)	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

Notes:

¹ Other includes €219 million (2011: €139 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 €1 million (2011: €48 million) of asset impairments reflected in special items and €4 million (2011: €1 million) of other impairments.

14 Property, plant and equipment continued

Included in the cost above is €1 million (2011: €nil) of interest incurred on qualifying assets which has been capitalised during the year. Tax relief on interest 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 (2011: €8 million) and €2 million (2011: €2 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	2012	2011
Freehold	973	893
Leasehold – long	1	–
Leasehold – short (less than 50 years)	3	6
Total land and buildings	977	899

15 Forestry assets

€ million	2012	2011
At 1 January	297	320
Capitalised expenditure	40	39
Acquisition of assets	20	3
Fair value gains ¹	40	49
Disposal of assets	(3)	–
Felling costs	(64)	(65)
Currency movements	(19)	(49)
At 31 December	311	297

Note:

¹ The fair value of forestry assets 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 originate from South Africa.

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

€ million	2012	2011
Mature	187	166
Immature	124	131
Total forestry assets	311	297

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.

Notes to the combined and consolidated financial statements continued

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16 Investments in associates

€ million	2012	2011
At 1 January	10	16
Net income from associates	1	1
Dividends received	(1)	(2)
Acquisition of associates	–	2
Disposal of discontinued operation (see note 9)	–	(6)
Disposal of associate	(4)	–
Currency movements	–	(1)
At 31 December	6	10

The Group's total investments in associates comprise:

€ million	2012	2011
Equity ¹	6	10
Total investments in associates	6	10

Note:

¹ As at 31 December 2012, there is €nil of goodwill in respect of associates (2011: €nil).

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

€ million	2012	2011
Total non-current assets	3	9
Total current assets	8	26
Total current liabilities	(4)	(21)
Total non-current liabilities	(1)	(4)
Share of associates' net assets	6	10
Total revenue	66	63
Total operating costs	(65)	(62)
Share of associates' profit from continuing operations	1	1

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

17 Financial asset investments

2012/€ million	Loans and receivables	Available-for-sale investments	Total
At 1 January	21	13	34
Additions	2	5	7
Fair value adjustments	–	2	2
Repayments by related parties	(9)	–	(9)
Repayments – other	(16)	–	(16)
Acquired through business combinations (see note 29)	17	–	17
Disposal of assets	–	(4)	(4)
Currency movements	(1)	–	(1)
Other	(1)	(1)	(2)
At 31 December	13	15	28
Current	1	–	1
Non-current	12	15	27

17 Financial asset investments continued

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)
Currency movements	(2)	–	(2)
Other	(1)	–	(1)
At 31 December	21	13	34
Current	1	–	1
Non-current	20	13	33

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.

18 Inventories

€ million	2012	2011
Valued using the first-in-first-out cost formula		
Raw materials and consumables	33	25
Work in progress	10	6
Finished products	31	27
Total valued using the first-in-first-out cost formula	74	58
Valued using the weighted average cost formula		
Raw materials and consumables	339	313
Work in progress	70	54
Finished products	296	212
Total valued using the weighted average cost formula	705	579
Total inventories	779	637
Of which, held at net realisable value	156	167

€ million	2012	2011
Combined and consolidated income statement		
From continuing operations		
Cost of inventories recognised as expense	(2,503)	(2,698)
Write-down of inventories to net realisable value	(19)	(15)
Aggregate reversal of previous write-down of inventories	13	4

19 Trade and other receivables

€ million	2012	2011
Trade receivables (a)	880	734
Allowance for doubtful debts (b)	(42)	(43)
Net trade receivables	838	691
Other receivables	153	121
Prepayments and accrued income	16	17
Total trade and other receivables	1,007	829

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

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

19 Trade and other receivables continued

(a) Trade receivables: credit risk

The Group's exposure to the credit risk inherent in its trade receivables and the associated risk management techniques that the Group deploys in order to mitigate this risk are discussed in note 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 trade receivables that were subject to impairment during the year is €38 million (2011: €50 million).

Included within the Group's aggregate trade receivables balance are specific debtor balances with customers totalling €50 million (2011: €29 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:

€ million	Trade receivables past due by				Total
	Less than 1 month	1-2 months	2-3 months	More than 3 months	
Carrying value as at 31 December 2012	37	6	3	4	50
Carrying value as at 31 December 2011	21	3	1	4	29

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

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

€ million	2012	2011
At 1 January	43	51
Increase in allowance recognised in combined and consolidated income statement	10	7
Amounts written off or recovered during the year	(11)	(11)
Disposal of discontinued operation (see note 9)	–	(2)
Currency movements	–	(2)
At 31 December	42	43

20 Trade and other payables

€ million	2012	2011
Trade payables	552	460
Tax and social security	67	58
Other payables	104	89
Accruals and deferred income	302	284
Total trade and other payables	1,025	891

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

21 Borrowings

€ million	2012			2011		
	Current	Non-current	Total	Current	Non-current	Total
Secured						
Bank loans and overdrafts	5	3	8	9	1	10
Obligations under finance leases	2	9	11	2	10	12
Total secured	7	12	19	11	11	22
Unsecured						
Bank loans and overdrafts	253	251	504	253	155	408
Bonds	–	1,310	1,310	–	492	492
Bonds	–	1,357	1,357	–	492	492
Embedded call option	–	(47)	(47)	–	–	–
Other loans	21	67	88	22	79	101
Total unsecured	274	1,628	1,902	275	726	1,001
Total borrowings	281	1,640	1,921	286	737	1,023

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 in note 38.

Obligations under finance leases

The maturity of obligations under finance leases is:

€ million	2012	2011
Not later than one year	3	3
Later than one year but not later than five years	8	10
Later than five years	5	–
Future value of finance lease liabilities	16	13
Future finance charges	(5)	(1)
Present value of finance lease liabilities	11	12

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. 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. Interest is charged on the balance outstanding at market-related rates linked to EURIBOR.

€500 million 2017 Eurobond

Mondi Finance plc launched its inaugural seven year publicly traded bond, guaranteed by Mondi plc, in 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 stable).

Notes to the combined and consolidated financial statements continued

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21 Borrowings continued

€500 million 2020 Eurobond

In September 2012 Mondi Finance plc launched an eight year publicly traded bond, guaranteed by Mondi plc. The €500 million bond, which matures on 28 September 2020, was issued at a discount of €0.1 million and pays a fixed coupon of 3.375% per annum. The bond contains the same 1.25% per annum coupon step up clause as the €500 million 2017 Eurobond.

€280 million Eurobond

As part of the acquisition of Nordenia (see note 29) Mondi assumed Nordenia's €280 million Eurobond, paying a coupon of 9.75% per annum and maturing on 15 July 2017. The bond was recognised at its fair value of €324 million at date of acquisition. The fair value of the bond includes the fair value of an option to call the bond early at the following redemption rates:

%	Redemption rate
Redemption date	
15 July 2014	104.875
15 July 2015	102.438
15 July 2016 and thereafter	100.000

The option is valued at €47 million at 31 December 2012.

€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 bank facilities amounting to R1.2 billion in South Africa, comprising of two revolving loans of R500 million (2011: R500 million) and R700 million (2011: R500 million) respectively. These loans are repayable on their extended maturity dates of 15 June 2013 and 23 August 2013 and bear interest at one month JIBAR plus different margins, payable monthly. Amortising term loans of R89 million that were outstanding at 31 December 2011 were settled on 29 June 2012. Capital and interest repayments on these loans were payable quarterly in arrears and incurred interest at three month JIBAR plus various margins.

21 Borrowings continued

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

2012/€ million	Floating rate borrowings	Fixed rate borrowings	Non-interest bearing borrowings	Total carrying value	Fair value
Euro	126	1,322	–	1,448	1,559
South African rand	180	–	–	180	180
Polish zloty	84	–	–	84	84
Russian rouble	41	–	–	41	41
Turkish lira	29	–	–	29	29
Pounds sterling	116	–	–	116	116
Other currencies	22	1	–	23	23
Carrying value	598	1,323	–	1,921	
Fair value	598	1,434	–		2,032

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

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 values of the €500 million 2017 Eurobond, €500 million 2020 Eurobond and €280 million Eurobond are estimated with reference to the last price quoted in the secondary market and for all other financial liabilities are 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	2012	2011
Assets held under finance leases		
Property, plant and equipment	9	9
Assets pledged as collateral for other borrowings		
Property, plant and equipment	8	21
Inventories	4	5
Financial assets	2	17
Other	–	17
Total value of assets pledged as collateral	23	69

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

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22 Derivative financial instruments

€ million	2012			2011		
	Asset	Liability	Notional amount	Asset	Liability	Notional amount
Current derivatives						
Held for trading						
Foreign exchange contracts ¹	4	(2)	892	10	(4)	847
Interest rate swaps	–	–	–	–	(2)	100
Total held for trading	4	(2)	892	10	(6)	947
Cash flow hedges						
Foreign exchange contracts	–	(2)	30	–	–	–
Interest rate swaps	–	–	–	–	(2)	100
Total cash flow hedges	–	(2)	30	–	(2)	100
Total current derivative financial instruments	4	(4)	922	10	(8)	1,047
Non-current derivatives						
Cash flow hedges						
Foreign exchange contracts	–	(1)	50	3	–	75
Total non-current derivative financial instruments	–	(1)	50	3	–	75

Note:

¹ Of the €892 million (2011: €847 million) aggregate notional amount presented, €710 million (2011: €607 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.

Included in the fair value of the €280 million Eurobond is an embedded derivative call option which is separately measured at fair value at each reporting date. For presentation purposes the bond and the call option asset are presented on a net basis in the combined and consolidated statement of financial position (refer note 21).

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 period when the hedged transaction affects profit and loss. For non-current non-financial assets, these gains/(losses) are included in the carrying value of the asset and depreciated over the same useful life as the cost of the asset.

22 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	2012	2011
Group revenue	–	(1)
Net finance costs	(2)	–
Total reclassification adjustments (see note 26)	(2)	(1)

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

Held for trading derivatives

€ million	2012	2011
Net fair value gains on held for trading derivatives	7	7

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 elected not to apply hedge accounting to the held for trading derivatives.

23 Provisions

2012/€ million	Restoration and environmental	Restruc- turing costs	Long service awards	Other	Total
At 1 January	11	17	14	36	78
Acquired through business combinations (see note 29)	–	–	2	27	29
Charged to combined and consolidated income statement	–	25	3	19	47
Unwinding of discount	–	–	1	–	1
Released to combined and consolidated income statement	–	(1)	–	(2)	(3)
Amounts applied	(1)	(15)	(2)	(31)	(49)
Disposal of businesses (see note 31)	(4)	–	–	–	(4)
Currency movements	–	–	–	1	1
At 31 December	6	26	18	50	100

2011/€ million	Restoration and environmental	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 2012

23 Provisions continued

Maturity analysis of total provisions on a discounted basis:

€ million	2012	2011
Current	67	43
Non-current	33	35
Total provisions	100	78

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, €38 million (2011: €25 million) are due to be incurred within the next 12 months. The residual €12 million (2011: €11 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.

24 Deferred tax

Deferred tax assets

€ million	2012	2011
At 1 January	5	21
Charged to combined and consolidated income statement	1	(4)
Charged to combined and consolidated statement of comprehensive income	2	(4)
Acquired through business combinations (see note 29)	4	–
Disposal of discontinued operation (see note 9)	–	(3)
Reclassification	(2)	(5)
At 31 December	10	5

Deferred tax liabilities

€ million	2012	2011
At 1 January	(310)	(349)
Charged to combined and consolidated income statement	(8)	(4)
Charged to combined and consolidated statement of comprehensive income	6	4
Acquired through business combinations (see note 29)	(41)	–
Disposal of discontinued operation (see note 9)	–	1
Currency movements	7	33
Reclassification	2	5
At 31 December	(344)	(310)

24 Deferred tax continued

The amount of deferred tax provided is presented as follows:

€ million	2012	2011
Deferred tax assets		
Tax losses ¹	6	4
Other temporary differences	4	1
Total deferred tax assets	10	5
Deferred tax liabilities		
Capital allowances in excess of depreciation	(332)	(281)
Fair value adjustments	(82)	(84)
Tax losses	16	19
Other temporary differences	54	36
Total deferred tax liabilities	(344)	(310)

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	2012	2011
Capital allowances in excess of depreciation	(8)	10
Fair value adjustments	(2)	(9)
Tax losses	(3)	(10)
Other temporary differences	6	1
Total charge from continuing operations	(7)	(8)

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

€ million	2012	2011
Deferred tax assets		
Recoverable within 12 months	5	3
Recoverable after 12 months	5	2
Total deferred tax assets	10	5
Deferred tax liabilities		
Payable within 12 months	–	(1)
Payable after 12 months	(344)	(309)
Total deferred tax liabilities	(344)	(310)

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	2012	2011
Tax losses – revenue	1,638	1,540
Tax losses – capital	17	17
Other temporary differences	44	48
Total	1,699	1,605

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

24 Deferred tax continued

Included in unrecognised tax losses, as at 31 December 2012, are losses of €1 million (2011: €1 million) that will expire within one year, €136 million (2011: €76 million) that will expire between one and five years, and €169 million (2011: €218 million) that will expire after five years. A further €1,349 million (2011: €1,262 million) of losses have no expiry date.

No deferred tax liability is recognised on gross temporary differences of €719 million (2011: €640 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 2012 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.

25 Retirement benefits

The Group operates post-retirement defined contribution and defined benefit plans for the majority of its employees. It also operates two post-retirement medical plans.

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 €11 million (2011: €14 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, 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 and accordingly, Mondi Limited recognised a settlement charge of €2 million in the combined and consolidated income statement. The fund has subsequently entered the liquidation process and Mondi Limited expects to receive a reimbursement of the pension surplus of €6 million once the fund is wound up, subject to any potential claims. The expected reimbursement is included in trade and other receivables.

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 South African plan is unfunded whilst the Austrian plan is funded. The South African plan has been closed to new participants since 1 January 1999.

25 Retirement benefits continued

Actuarial assumptions

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

	2012		2011	
	South Africa	Europe & International	South Africa	Europe & International
%				
Average discount rate for plan liabilities	7.5	1.3 – 8.75	8.7	1.5 – 8.8
Average rate of inflation	6.5	1.8 – 10.0	6.6	1.8 – 10.0
Average rate of increase in salaries	7.7	0.0 – 10.0	7.8	1.0 – 10.0
Average rate of increase of pensions in payment	–	2.0 – 4.2	6.6	1.1 – 3.3
Average long-term rate of return on plan assets	–	3.3 – 4.3	7.7	3.8 – 6.2
Expected average increase of healthcare costs	8.0	4.1	8.1	4.3

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:

	2012		2011	
	South Africa	Europe & International	South Africa	Europe & International
years				
Retiring today:				
Males	15.91	12.88 – 22.50	15.87 – 20.00	12.88 – 22.77
Females	19.85	16.68 – 26.17	19.81 – 24.80	16.68 – 26.39
Retiring in 20 years:				
Males	20.24	12.88 – 22.69	17.27 – 21.60	10.07 – 22.69
Females	24.55	16.68 – 25.99	21.50 – 26.50	14.89 – 25.99

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 2012.

The market value of assets is used to determine the funding level of the plans and is sufficient to cover 72% (2011: 105%) 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 plans and post-retirement medical plans during 2013 are €15 million (2012: €16 million). The aggregate benefit obligation in respect of the unfunded plans as at 31 December 2012 is €208 million (2011: €183 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 2012 is €61 million (2011: loss before tax of €18 million). The cumulative total recognised since 1 January 2004 is a loss of €90 million.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

25 Retirement benefits continued

Retirement benefits (obligation)/surplus

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

€ million	2012			2011		
	South Africa	Europe & International	Total	South Africa	Europe & International	Total
Present value of unfunded obligations	(83)	(125)	(208)	(76)	(107)	(183)
Present value of funded obligations	–	(162)	(162)	(142)	(164)	(306)
Present value of pension plan liabilities	(83)	(287)	(370)	(218)	(271)	(489)
Fair value of plan assets	–	117	117	173	148	321
Deficit	(83)	(170)	(253)	(45)	(123)	(168)
Surplus restrictions	–	–	–	(23)	(3)	(26)
Deficit on pension and post-retirement medical plans	(83)	(170)	(253)	(68)	(126)	(194)
Amounts reported in combined and consolidated statement of financial position						
Assets						
Retirement benefits surplus	–	–	–	8	–	8
Liabilities						
Retirement benefits obligation:						
Defined benefit pension plans ¹	–	(166)	(166)	–	(126)	(126)
Post-retirement medical plans	(83)	(4)	(87)	(76)	–	(76)
Total retirement benefits obligation	(83)	(170)	(253)	(76)	(126)	(202)

Note:

¹ Underlying obligations are grossed up for the surpluses that exist.

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

€ million	2012			2011		
	Pension plans	Post-retirement medical plans	Total plans	Pension plans	Post-retirement medical plans	Total plans
At 1 January	(403)	(86)	(489)	(425)	(93)	(518)
Acquired through business combinations (see note 29)	(28)	–	(28)	–	–	–
Current service cost	(4)	–	(4)	(8)	–	(8)
Past service costs and effects of settlements and curtailments	164	–	164	2	–	2
Interest cost	(11)	(7)	(18)	(27)	(6)	(33)
Actuarial losses	(49)	(15)	(64)	(16)	(13)	(29)
Contributions paid by other members	–	(3)	(3)	(1)	(3)	(4)
Benefits paid	15	8	23	27	8	35
Disposal of discontinued operation (see note 9)	–	–	–	16	7	23
Disposal of businesses (see note 31)	48	–	48	4	–	4
Currency movements	(2)	3	1	25	14	39
At 31 December	(270)	(100)	(370)	(403)	(86)	(489)

25 Retirement benefits continued

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

€ million	Fair value of plan assets	
	2012	2011
At 1 January	321	349
Acquired through business combinations (see note 29)	7	–
Expected return on plan assets	6	21
Settlements and curtailments	(166)	–
Actuarial gains	3	11
Contributions paid by employer	2	7
Contributions paid by other members	3	4
Benefits paid	(8)	(21)
Disposal of discontinued operation (see note 9)	–	(19)
Disposal of businesses (see note 31)	(47)	–
Reclassification ¹	(6)	–
Currency movements	2	(31)
At 31 December	117	321

Note:

¹ The Mondi Pension Fund in South Africa was placed in liquidation during the year and the surplus recoverable reclassified to trade and other receivables.

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 2012, the actual return on plan assets in respect of defined benefit pension schemes was a gain of €9 million (2011: gain of €32 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 are detailed below:

	South Africa		Europe & International		Total
	Rate of return (%)	Fair value (€ million)	Rate of return (%)	Fair value (€ million)	Fair value (€ million)
2012					
External equity	–	–	7.75	40	40
Property	–	–	5.30	2	2
Bonds	–	–	3.13	62	62
Insurance contracts	–	–	3.72	7	7
Cash	–	–	0.50	1	1
Other	–	–	3.80	5	5
Fair value of plan assets		–		117	117

	South Africa		Europe & International		Total
	Rate of return (%)	Fair value (€ million)	Rate of return (%)	Fair value (€ million)	Fair value (€ million)
2011					
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

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

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

25 Retirement benefits continued

Combined and consolidated income statement

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

	2012			2011		
	Pension plans	Post-retirement medical plans	Total plans	Pension plans	Post-retirement medical plans	Total plans
€ million						
Analysis of the amount charged/(credited) to operating profit						
Current service costs	4	–	4	8	–	8
Past service cost	1	–	1	–	–	–
Other amounts credited to profit and loss (curtailments and settlements)	1	–	1	(2)	–	(2)
Total within operating costs	6	–	6	6	–	6
Analysis of the amount (credited)/charged to net finance costs on plan liabilities						
Expected return on plan assets ¹	(5)	(1)	(6)	(21)	–	(21)
Interest costs on plan liabilities ²	11	7	18	27	6	33
Net charge to net finance costs	6	6	12	6	6	12
Total charge from continuing operations to combined and consolidated income statement	12	6	18	12	6	18

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	16	(14)

25 Retirement benefits continued

The Group's defined benefit pension and post-retirement medical arrangements, for the five years ended 31 December 2012, are summarised as follows:

€ million	2012	2011	2010	2009	2008
Present value of unfunded obligations	(208)	(183)	(199)	(169)	(164)
Present value of funded obligations	(162)	(306)	(319)	(265)	(235)
Present value of pension plan liabilities	(370)	(489)	(518)	(434)	(399)
Fair value of plan assets	117	321	349	282	235
Deficit	(253)	(168)	(169)	(152)	(164)
Surplus restrictions	–	(26)	(31)	(24)	(18)
Deficit on pension and post-retirement medical plans	(253)	(194)	(200)	(176)	(182)
Assets					
Defined benefit plans in surplus	–	8	11	8	–
Liabilities					
Defined benefit plans in deficit (funded and unfunded)	(166)	(126)	(118)	(124)	(132)
Post-retirement medical plans	(87)	(76)	(93)	(60)	(50)
Total liabilities	(253)	(202)	(211)	(184)	(182)
Experience adjustments					
On plan liabilities	28	2	(33)	(1)	(17)
On plan assets	14	25	51	21	(34)
Total experience adjustments	42	27	18	20	(51)

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

26 Other comprehensive income

€ million	2012			2011		
	Before tax amount	Tax benefit/ (expense)	Net of tax amount	Before tax amount	Tax benefit/ (expense)	Net of tax amount
Items that may subsequently be reclassified to the combined and consolidated income statement:						
Effect of cash flow hedges:	2	–	2	12	(4)	8
Fair value gains arising during the year	–			11		
Less: Reclassification adjustments for losses included in combined and consolidated income statement	2			1		
Gains on available-for-sale investments	1	–	1	–	–	–
Exchange differences on translation of foreign operations	49	–	49	(196)	–	(196)
Share of other comprehensive income of associates ¹	–	–	–	(1)	–	(1)
Items that will not subsequently be reclassified to the combined and consolidated income statement:						
Actuarial losses and surplus restriction on post-retirement benefit schemes:	(35)	8	(27)	(21)	4	(17)
Actuarial losses arising during the year	(61)			(18)		
Effect of surplus restrictions during the year	26			(3)		
Total other comprehensive income/(expense)	17	8	25	(206)	–	(206)
Attributable to:						
Non-controlling interests	7	–	7	(27)	–	(27)
Equity holders of the parent companies	10	8	18	(179)	–	(179)

Note:

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

27 Share capital and stated capital

	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.

27 Share capital and stated capital continued

2012	Number of shares	Called up, allotted and fully paid/€ million		
		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 shares¹	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

2011	Number of shares	Called up, allotted and fully paid/€ million		
		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 shares¹	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

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 represent the cost of shares in Mondi Limited and Mondi plc purchased in the market and held by the Mondi Incentive Schemes Trust and the Mondi Employee Share Trust respectively to satisfy share awards under the Group's employee share schemes (see note 28). These costs are reflected in the combined and consolidated statement of changes in equity.

at 31 December	2012		2011	
	Number of shares held	Average price per share	Number of shares held	Average price per share
Mondi Incentive Schemes Trust				
Mondi Limited ordinary shares with no par value	549,935	R70.69	761,462	R60.01
Mondi Employee Share Trust				
Mondi plc €0.20 ordinary shares	1,452,253	£6.04	2,991,811	£4.20

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

28 Share-based payments

Mondi share awards

The Group has set up its own share-based payment arrangements to incentivise employees. 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	2012	2011
Bonus Share Plan (BSP)	6	6
Long-Term Incentive Plan (LTIP)	4	6
Total share-based payment expense	10	12
Attributable to:		
Continuing operations	10	10
Discontinued operation	–	2

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

<i>Mondi Limited</i>	BSP 2010	BSP 2011	BSP 2012
Date of grant	29 March 2010	25 March 2011	28 March 2012
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (R)	53.06	63.70	71.29

<i>Mondi Limited</i>	LTIP 2010	LTIP 2011	LTIP 2012
Date of grant	29 March 2010	25 March 2011	28 March 2012
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
ROCE component	100	100	100
TSR component	25	25	25
Grant date fair value per instrument (R)			
ROCE component	50.51	56.09	63.60
TSR component ¹	12.63	14.02	15.90

<i>Mondi plc</i>	BSP 2010	BSP 2011	BSP 2012
Date of grant	29 March 2010	25 March 2011	28 March 2012
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Grant date fair value per instrument (£)	4.68	5.82	5.93

28 Share-based payments continued

<i>Mondi plc</i>	LTIP 2010	LTIP 2011	LTIP 2012
Date of grant	29 March 2010	25 March 2011	28 March 2012
Vesting period (years)	3	3	3
Expected leavers per annum (%)	5	5	5
Expected outcome of meeting performance criteria (%)			
ROCE component	100	100	100
TSR component	25	25	25
Grant date fair value per instrument (£)			
ROCE component	4.43	5.09	5.27
TSR component ¹	1.11	1.27	1.32

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					
2012/Scheme	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	31 December
BSP	675,958	166,892	(297,572)	(12,136)	533,142
LTIP	1,061,283	186,452	(546,555)	(53,908)	647,272
Total	1,737,241	353,344	(844,127)	(66,044)	1,180,414

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 plc					
2012/Scheme	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	31 December
BSP	3,333,795	646,225	(1,627,900)	(105,654)	2,246,466
LTIP	6,587,021	996,281	(3,788,110)	(530,127)	3,265,065
Total	9,920,816	1,642,506	(5,416,010)	(635,781)	5,511,531

Notes to the combined and consolidated financial statements continued

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28 Share-based payments continued

2011/ <i>Scheme</i>	Mondi plc				
	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

Combined share award schemes

2012	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	31 December
Mondi Limited	1,737,241	353,344	(844,127)	(66,044)	1,180,414
Mondi plc	9,920,816	1,642,506	(5,416,010)	(635,781)	5,511,531
Total	11,658,057	1,995,850	(6,260,137)	(701,825)	6,691,945

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

29 Business combinations

To 31 December 2012

Acquisition of Nordenia

On 1 October 2012 Mondi acquired 99.93% of the outstanding share capital of Nordenia from Oaktree Capital Management L.P. and certain other minority shareholders for a cash consideration of €259 million. The acquisition enables the Group to create a leading consumer packaging business.

Nordenia generated operating profits prior to its acquisition by Mondi, but was highly geared and as a result had an equity deficit. The premium of €268 million paid over the fair values of Nordenia's identifiable net assets was recognised as goodwill on acquisition and can be attributed to significant synergies to be realised from combining Nordenia's existing consumer packaging activities with those of Mondi, the ability to leverage Nordenia's existing competencies in high-growth emerging markets, exposure to Nordenia's proven innovation and product development processes and access to Nordenia's long-term relationships with a broad blue chip customer base. It is not expected that any portion of the goodwill will be deductible for tax purposes.

The interest of non-controlling interests in Nordenia of 0.07% recognised at the acquisition date was insignificant.

The fair value accounting reflected in these results is provisional in nature. The nature of this business 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 the acquired business is evaluated post acquisition. If necessary, these adjustments will be made within 12 months of the acquisition date.

Prior to being acquired by Mondi, Nordenia generated revenue of approximately €74 million per month and underlying operating profit of €6 million per month. Nordenia's revenue for the year ended 31 December 2012 was €873 million with a profit after tax of €1 million. Nordenia's revenue of €208 million and underlying operating profit of €1 million since date of acquisition have been included in the combined and consolidated income statement. Transaction costs of €11 million related to the acquisition are recognised as a special item in the combined and consolidated income statement.

29 Business combinations continued

Details of the net assets acquired, as adjusted from book to fair value, and the attributable goodwill are as follows:

€ million	Book value	Revaluation	Fair value
Net assets acquired:			
Intangible assets	2	100	102
Property, plant and equipment	224	(3)	221
Financial asset investments	17	–	17
Deferred tax assets	4	–	4
Inventories	113	7	120
Trade and other receivables	127	–	127
Cash and cash equivalents	33	–	33
Other current assets	1	–	1
Short-term borrowings	(56)	–	(56)
Trade and other payables	(134)	–	(134)
Current tax liabilities	(6)	–	(6)
Provisions	(27)	–	(27)
Medium and long-term borrowings	(300)	(45)	(345)
Retirement benefits obligation	(20)	–	(20)
Deferred tax liabilities	(14)	(17)	(31)
Other non-current liabilities	(15)	–	(15)
Net assets acquired	(51)	42	(9)
Goodwill arising on acquisition			268
Total cost of acquisition			259
Transaction costs expensed			11
Cash acquired net of overdrafts			(33)
Net cash paid per combined and consolidated statement of cash flows			237

In respect of 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.

Other acquisitions

On 2 May 2012, following completion of a number of suspensive conditions, including a ruling from the Arbitration Court of the National Chamber of Commerce in Poland, Mondi Świecie S.A. acquired the entire share capital of Saturn Management Sp. z o.o. from Polish Energy Partners S.A. for a net cash consideration of €31 million and the assumption of debt of €57 million. The premium of €4 million paid over the acquisition date fair values of the net assets acquired is attributable to expected cost saving synergies. Transaction costs of approximately €1 million were expensed. Saturn Energy is the owner of the power and heat generating plant that provides Mondi Świecie S.A. with most of its electricity requirements and all of its heat and steam needs.

In line with Mondi's existing strategy to strengthen its leading market position in corrugated packaging in central and eastern Europe, Mondi acquired two corrugated box plants in Germany and the Czech Republic, consuming 130,000 tonnes of containerboard per annum, and a 105,000 tonne recycled containerboard mill in the Czech Republic from Duropack GmbH (Duropack) for a cash consideration of €133 million on 5 November 2012. On 19 November 2012 the Group announced its intention to close the recycled containerboard mill. Closure costs of €3 million were recognised in the combined and consolidated income statement.

The premium of the purchase price over the acquisition date fair values of the net assets acquired from Duropack amounted to €84 million and is mainly attributable to synergies expected to be realised from combining the converting activities of the two box plants with the Group's existing operations.

It is not expected that any portion of the goodwill arising from the acquisition of these businesses will be deductible for tax purposes.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

29 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 dates.

Prior to the acquisitions, the businesses generated revenue of approximately €12 million per month and underlying operating profits of €1 million per month. The businesses' aggregate revenues for the year ended 31 December 2012 were €148 million with profits after tax of €7 million. Since the acquisition dates, turnover of €27 million and underlying operating losses of €1 million were contributed by the businesses and included in the combined and consolidated income statement.

Details of the aggregate net assets acquired, as adjusted from book to fair value, and the attributable goodwill are presented as follows:

€ million	Book value	Revaluation	Fair value
Net assets acquired:			
Intangible assets	–	3	3
Property, plant and equipment	100	25	125
Inventories	10	(2)	8
Trade and other receivables	16	–	16
Cash and cash equivalents	20	–	20
Short-term borrowings	(11)	–	(11)
Trade and other payables	(22)	–	(22)
Current tax liabilities	(1)	–	(1)
Provisions	(1)	(1)	(2)
Medium and long-term borrowings	(48)	–	(48)
Retirement benefits obligation	(1)	–	(1)
Deferred tax liabilities	(1)	(9)	(10)
Other non-current liabilities	(1)	–	(1)
Net assets acquired¹	60	16	76
Goodwill arising on acquisitions ²			88
Total cost of acquisitions			164
Cash acquired net of overdrafts			(20)
Net cash paid per combined and consolidated statement of cash flows³			144

Notes:

¹ €27 million of net assets acquired is attributable to Saturn and €49 million to Duropack.

² €4 million of the goodwill arising on acquisitions is attributable to Saturn and €84 million to Duropack.

³ €29 million of the net cash paid is attributable to Saturn and €115 million to Duropack.

29 Business combinations continued

In respect of trade and other receivables, the gross contractual amounts receivable and the best estimates at the acquisition dates of the contractual cash flows not expected to be collected approximate the book values and the revaluation amounts respectively as presented.

There were no other acquisitions made during the year ended 31 December 2012.

To 31 December 2011

There were no major acquisitions made during 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 acquisitions			1
Total cost of acquisitions			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.

In respect of trade and other receivables, the gross contractual amounts receivable and the best estimates at the acquisition dates of the contractual cash flows not expected to be collected approximate the book values and the revaluation amounts respectively as presented.

During the year to 31 December 2012 no adjustments were made to the provisional values estimated of net assets acquired in the year to 31 December 2011.

30 Non-controlling interests bought out

On 18 April 2012, Mondi concluded an all cash public tender offer for the ordinary shares of Mondi Świecie S.A. that it did not already own, increasing its shareholding to 93.2% from 66%. On 18 May 2012, Mondi acquired the remaining shares it did not already own. The total consideration paid by Mondi was €296 million including transaction costs of approximately €1 million which were expensed.

€2 million was paid for the acquisition of an additional 3.1% of the ordinary shares of Mondi Tire Kutsan Kağıt Ve Ambalaj Sanayi Anonim Şirketi.

These acquisitions are reflected in the combined and consolidated statement of changes in equity as transactions between shareholders with the premium over the carrying value of the non-controlling interests being reflected as a reduction in retained earnings.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

31 Disposal of joint ventures and subsidiaries

To 31 December 2012

Disposal of Aylesford Newsprint

On 2 October 2012, Mondi and Svenska Cellulosa Aktiebolaget (SCA) sold their 100% interest in the jointly owned Aylesford Newsprint to The Martland Holdings for a nominal consideration. Aylesford Newsprint specialises in newsprint production from paper for recycling. The loss on disposal of €70 million was recognised in special items in the combined and consolidated income statement. Transaction costs were insignificant and were expensed.

Other disposals

There were no other significant disposals during the year ended 31 December 2012.

Details of the aggregate net assets disposed are presented as follows:

€ million	2012
Net assets disposed:	
Property, plant and equipment	30
Inventories	7
Trade and other receivables	11
Cash and cash equivalents	17
Trade and other payables	(11)
Provisions	(4)
Retirement benefits obligation	(1)
Other non-current liabilities	(1)
Total net assets disposed	48
Guarantee liability retained	7
Cumulative translation adjustment reserve realised	15
Loss on disposal of businesses (see note 5)	(70)
Disposal proceeds	–
Cash disposed	(17)
Deferred consideration received in respect of the sale of Mondi Frohnleiten in 2010	1
Net cash outflow from disposal of businesses during the year	(16)

31 Disposal of joint ventures and subsidiaries continued

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 2012

32 Disposal groups and assets held for sale

There were no material disposal groups or assets held for sale as at 31 December 2012. Details of the aggregate disposal groups and assets held for sale are presented as follows:

€ million	2012	2011
Property, plant and equipment	1	–
Inventories	1	–
Total assets classified as held for sale	2	–
Net assets	2	–

33 Consolidated cash flow analysis

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

€ million	2012	2011
Profit from continuing operations before tax	371	457
Depreciation and amortisation	355	342
Share-based payments	10	10
Non-cash effect of special items	91	36
Net finance costs	107	111
Net income from associates	(1)	(1)
Decrease in provisions and post-employment benefits	(23)	(25)
Increase in inventories	(14)	(55)
Increase in operating receivables	(31)	(32)
(Decrease)/increase in operating payables	(35)	19
Fair value gains on forestry assets	(40)	(49)
Felling costs	64	65
Profit on disposal of tangible and intangible assets	(4)	–
Other adjustments	(5)	5
Cash generated from continuing operations	845	883
Cash generated from discontinued operation	–	34
Cash generated from operations	845	917

(b) Cash and cash equivalents

€ million	2012	2011
Cash and cash equivalents per combined and consolidated statement of financial position	56	191
Bank overdrafts included in short-term borrowings (see note 33c)	(93)	(74)
Net cash and cash equivalents per combined and consolidated statement of cash flows	(37)	117

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

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 2011	24	(351)	(1,037)	–	(1,364)
Cash flow	84	135	4	1	224
Business combinations (see note 29)	–	(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)
Cash flow	(158)	132	(549)	–	(575)
Business combinations (see note 29)	–	(67)	(393)	–	(460)
Movement in unamortised loan costs	–	–	3	–	3
Reclassification	–	(46)	46	–	–
Currency movements	4	5	(10)	–	(1)
At 31 December 2012	(37)	(188)	(1,640)	1	(1,864)

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 in cash and cash equivalents. As at 31 December 2012, short-term borrowings in the combined and consolidated statement of financial position of €281 million (2011: €286 million) include €93 million of overdrafts (2011: €74 million).

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

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

34 Capital commitments

€ million	2012	2011
Contracted for but not provided	129	140
Approved, not yet contracted for	589	372

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

€ million	2012	2011
Intangible assets	9	13
Property, plant and equipment	709	499
Total capital commitments	718	512

The expected maturity of these capital commitments is:

€ million	2012	2011
Within one year	445	339
One to two years	263	141
Two to five years	10	32
Total capital commitments	718	512

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 are expected to be financed by existing cash resources and borrowing facilities.

35 Contingent liabilities and contingent assets

Contingent liabilities comprise aggregate amounts as at 31 December 2012 of €15 million (2011: €17 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 29).

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 2012 or 31 December 2011.

36 Operating leases

Lease agreements

The principal operating lease agreements in place include the following:

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 the consumer price inflation 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.

36 Operating leases continued

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 (2011: €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 58 years remaining on the lease. The operating lease commitments of this lease are not included in the table below.

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

€ million	2012		2011	
	Forestry assets	Land, buildings and other assets	Forestry assets	Land, buildings and other assets
Expiry date				
Within one year	5	21	5	48
One to two years	5	19	5	37
Two to five years	14	34	16	73
After five years	98	23	99	66
Total operating leases	122	97	125	224

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), less financial asset investments.

€ million	2012	2011
Total borrowings and current financial asset investments (see note 33c)	1,827	948
Less: cash and cash equivalents (see note 33c)	37	(117)
Net debt (see note 33c)	1,864	831
Less: non-current financial asset investments		
Loans and receivables (see note 17)	(12)	(20)
Available-for-sale investments (see note 17)	(15)	(13)
Adjusted net debt	1,837	798
Equity	2,876	3,035
Total capital employed	4,713	3,833

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 appropriate capital structure. In order to do so, 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 equity plus net debt; and
- return on capital employed, defined as underlying operating profit, plus share of associates' net income, divided by average capital employed.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

37 Capital management continued

%	2012	2011
Gearing	39.3	21.5
Return on capital employed	13.7	15.0

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.

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.

38 Financial risk management

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 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 offset fair value movements on related forward foreign exchange contracts.

38 Financial risk management continued

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.

Net monetary foreign currency exposures by functional currency zone

2012/€ million	Net monetary foreign currency exposures – assets/(liabilities) ¹							
	EUR	USD	PLN	GBP	SEK	TRY	CZK	Other
Functional currency zones²								
Euro	–	(3)	1	2	1	2	–	5
South African rand	(4)	1	–	1	–	–	–	–
Czech koruna	(11)	1	–	(1)	–	–	–	–
Hungarian forint	3	–	–	–	–	–	–	–
Polish zloty	1	–	–	–	–	–	1	–
Pounds sterling	1	–	–	–	–	–	–	1
Russian rouble	8	2	–	–	–	–	–	–
Swedish krona	(8)	–	–	–	–	–	–	–
Turkish lira	(16)	(3)	–	1	–	–	–	–
US dollar	1	–	–	–	–	–	–	–
Other	(24)	10	–	–	–	–	–	–

2011/€ million	Net monetary foreign currency exposures – assets/(liabilities) ¹							
	EUR	USD	PLN	GBP	SEK	NOK	CHF	Other
Functional currency zones²								
Euro	–	3	–	3	–	–	2	2
South African rand	–	(3)	–	–	–	–	–	–
Czech koruna	(13)	2	–	–	–	–	–	–
Hungarian forint	2	–	–	–	–	–	–	–
Polish zloty	6	(1)	–	–	1	–	–	1
Pounds sterling	4	3	–	–	1	–	–	2
Russian rouble	9	2	–	–	–	–	–	–
Swedish krona	(1)	1	–	–	–	–	–	–
Turkish lira	(12)	(3)	–	–	–	–	–	–
US dollar	(1)	–	–	–	–	–	–	–
Other	1	3	–	–	–	–	–	–

Notes:

¹ Presented in euro, 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.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

38 Financial risk management continued

2012/€ million	Income/(expense)	
	+5%	-5%
Functional currency zones		
Russian rouble	(1)	1
Czech koruna	1	(1)
Turkish lira	1	(1)
Other	1	(1)

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)

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 €4 million (2011: €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 on hand and demand deposits, together with short-term highly liquid investments which have a maturity of three months or less from the date of acquisition. Centralised cash pooling arrangements are in place, which ensure that cash is utilised most efficiently for the ongoing working capital needs of the 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 21). Group treasury uses interest rate swaps to hedge certain exposures to movements in the relevant interbank 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 interbank lending rates on its variable rate debt, subject to any interest rate differentials that exist between corporate saving and lending rates.

Net variable rate debt sensitivity analysis

The net variable rate exposure represents variable rate debt less 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.

38 Financial risk management continued

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

2012/€ million	Interest rate risk exposures and sensitivities							
	EUR	ZAR	PLN	RUB	TRY	GBP	Other	Total
Total debt	1,448	180	84	41	29	116	23	1,921
Less:								
Fixed rate debt	(1,322)	–	–	–	–	–	(1)	(1,323)
Cash and cash equivalents	(15)	(4)	(2)	(3)	(1)	(1)	(30)	(56)
Net variable rate debt	111	176	82	38	28	115	(8)	542
Net variable rate exposure	111	176	82	38	28	115	(8)	542
+/- basis points change								
Potential impact on earnings								
(+50 basis points)	(1)	(1)	–	–	–	(1)	–	(3)
Potential impact on earnings								
(-50 basis points)	1	1	–	–	–	1	–	3

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 €nil for the year ended 31 December 2012.

2011/€ million	Interest rate risk exposures and sensitivities							
	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 €nil for the year ended 31 December 2011.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

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	2012	2011
Long-dated contracts with tenures of more than 12 months		
Russian rouble	59	84
Short-dated contracts with tenures of less than 12 months		
Russian rouble	127	110
Czech koruna	51	80
US dollar	62	69
Pounds sterling	(59)	52
Swedish krona	13	16
Polish zloty	128	(36)
Other	29	28
Total swapped	410	403

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 gross trade receivables balance of €880 million (2011: €734 million) included in trade and other receivables reported in the combined and consolidated statement of financial position (see note 19), credit insurance covering €615 million (2011: €577 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 €18 million (2011: €14 million).

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	2012	2011
Expiry date		
In one year or less	27	38
In more than one year	735	851
Total credit available	762	889

38 Financial risk management continued

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 typically takes place 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 for two to five years from the reporting date presented.

Contractual maturity analysis

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

2012/€ million	< 1 year	1-2 years	2-5 years	5+ years	Total ¹
Bank loans and overdrafts	258	26	186	42	512
Bonds	–	–	812	498	1,310
Other borrowings	21	19	48	–	88
Finance leases	2	2	3	4	11
Total borrowings	281	47	1,049	544	1,921
Interest on borrowings net of amortised costs and discounts	95	86	192	57	430
Trade and other payables (excluding tax and social security) (see note 20)	958	–	–	–	958
Total undiscounted cash flows	1,334	133	1,241	601	3,309

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 net of amortised costs and discounts	33	40	103	46	222
Trade and other payables (excluding tax and social security) (see note 20)	833	–	–	–	833
Total undiscounted cash flows	1,152	83	236	607	2,078

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.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

38 Financial risk management continued

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

2012/€ million	< 1 year	1-2 years	2-5 years	Total ¹
Foreign exchange contracts	–	(1)	–	(1)
Discounted cash profile of derivatives	–	(1)	–	(1)
Discounting and interest	(4)	(3)	(5)	(12)
Total undiscounted cash flows	(4)	(4)	(5)	(13)

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)

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); and
- level 3 – inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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

The significant inputs required to fair value all of the Group's financial instruments are observable. The Group does not hold any financial instruments categorised as either level 1 or level 3 financial instruments.

Specific valuation methodologies used to value financial instruments include:

- the fair values of interest rate swaps and foreign exchange contracts are calculated as the present value of expected future cash flows based on observable yield curves and exchange rates;
- the Group's commodity price derivatives are fair valued by independent third parties, who in turn calculate the fair values as the present value of expected future cash flows based on observable market data; and
- 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 joint ventures and associates. 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, 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.

2012/€ million	Joint ventures	Associates
Sales to related parties	–	7
Purchases from related parties	1	14
Dividends received	–	1
Loans to related parties	10	–
Receivables due from related parties	3	–
Payables due to related parties	–	1

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	–

Cyril Ramaphosa, joint chairman of Mondi, has a 29.6% (2011: 29.6%) 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	2012	2011
Purchases from Shanduka Group	12.8	12.1
Shareholder's loan due to Shanduka Group	8.3	8.8
Payables due to Shanduka Group	–	0.8

Details of the transactions between the Group and its pension and post-retirement medical plans are disclosed in note 25.

Notes to the combined and consolidated financial statements continued

for the year ended 31 December 2012

40 Group companies

The principal subsidiaries of the Group as at the reporting dates are presented below. All of these interests are combined and consolidated within the Group's financial statements. The Group has restricted the information to its principal subsidiaries, as full compliance with Section 409 of the UK Companies Act 2006 would result in a statement of excessive length.

	Percentage equity owned ¹			
	Country of incorporation	Business	2012	2011
Subsidiaries				
Mondi SCP a.s.	Slovakia	Uncoated fine paper	51	51
Mondi AG	Austria	Uncoated fine paper, packaging paper, fibre packaging and consumer packaging	100	100
Mondi Corrugated Holding Österreich GmbH	Austria	Fibre packaging	100	100
Mondi Świecie S.A.	Poland	Packaging paper	100	66
Mondi Tire Kutsan Kağıt Ve Ambalaj Sanayi Anonim Şirketi	Turkey	Fibre packaging	66.5	63.4
Mondi Syktyvkar OJSC	Russia	Uncoated fine paper and packaging paper	100	100
Mondi Štětí a.s.	Czech Republic	Packaging paper	100	100
Mondi Finance plc	UK	Treasury	100	100
Mondi Consumer Packaging International AG	Austria	Consumer packaging and treasury	99.93	–

Note:

¹ This represents the percentage of equity owned and the proportion of voting rights held by the Group.

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 2012

With the exception of the proposed final dividend for 2012, included in note 12, there have been no material reportable events since 31 December 2012.

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 2012 and selected notes are derived from the audited financial statements of Mondi Limited for the year ended 31 December 2012. We expressed an unmodified audit opinion on those financial statements in our report dated 20 February 2013. 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. 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 International Financial Reporting Standards (IFRS) 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 2012 are consistent, in all material respects, with those financial statements, in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Deloitte & Touche

Registered Auditors
Per Bronwyn Kilpatrick
Partner
Sandton

20 February 2013

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

National Executive **LL Bam** Chief Executive **AE Swiegers** Chief Operating Officer **GM Pinnock** Audit **DL Kennedy** Risk Advisory **NB Kader** Tax **TP Pillay** Consulting **K Black** Clients & Industries **JK Mazzocco** Talent & Transformation **CR Beukman** Finance **M Jordan** Strategy **S Gwala** Special Projects **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 Chartered Accountancy Profession Sector Code

Member of Deloitte Touche Tohmatsu Limited

Mondi Limited parent company statement of financial position

as at 31 December 2012

<i>R million</i>	Notes	2012	2011
Property, plant and equipment		5,308	5,396
Forestry assets		2,856	2,294
Investments in subsidiaries	2	10	10
Investment in associate	3	24	24
Investment in joint venture	4	172	405
Financial asset investments		1	5
Retirement benefits surplus		–	80
Total non-current assets		8,371	8,214
Inventories		572	531
Trade and other receivables		1,375	1,343
Investments in subsidiaries	2	95	76
Current income tax receivable		21	–
Financial asset investments		55	47
Cash and cash equivalents		–	54
Derivative financial instruments		11	17
Assets held for sale		26	5
Total current assets		2,155	2,073
Total assets		10,526	10,287
Short-term borrowings		(2,150)	(1,905)
Trade and other payables		(939)	(927)
Provisions		(66)	(65)
Derivative financial instruments		–	(1)
Liabilities directly associated with assets held for sale		(1)	–
Total current liabilities		(3,156)	(2,898)
Medium and long-term borrowings		(2)	(1)
Retirement benefits obligation		(912)	(789)
Deferred tax liabilities		(1,505)	(1,554)
Provisions		(27)	(27)
Total non-current liabilities		(2,446)	(2,371)
Total liabilities		(5,602)	(5,269)
Net assets		4,924	5,018
Equity			
Stated capital	5;6	4,188	4,188
Retained earnings and other reserves	6	736	830
Total equity		4,924	5,018

The statement of financial position of Mondi Limited and related notes were approved by the board and authorised for issue on 20 February 2013 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 2012

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

<i>R million</i>	2012	2011
Unlisted		
Shares at cost	10	10
Loans advanced	95	76
Total investments in subsidiaries	105	86
Repayable within one year disclosed as a current asset	(95)	(76)
Total long-term investments in subsidiaries	10	10

3 Investment in associate

<i>R million</i>	2012	2011
Mpact Recycling (Proprietary) Limited		
Shares at cost	24	24
Total investment in associate	24	24

4 Investment in joint venture

<i>R million</i>	2012	2011
Mondi Shanduka Newsprint (Proprietary) Limited		
Shareholder's loan	128	128
Mezzanine loan	44	277
Total investment in joint venture	172	405

Notes to the Mondi Limited parent company financial statements continued

for the year ended 31 December 2012

5 Stated capital

2012/R million	Stated capital
Called-up, allotted and fully paid¹	
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

2011/R million	Stated capital
Called-up, allotted and fully paid¹	
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

Note:

¹ The authorised share capital is disclosed in note 27 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 2011	5,176	1,999	164	7,339
Dividends paid	–	(330)	–	(330)
Effect of dividend in specie distributed	(988)	(977)	–	(1,965)
Total comprehensive expense 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
Dividends paid	–	(322)	–	(322)
Total comprehensive income for the year	–	315	(63)	252
Mondi share schemes' charge	–	–	18	18
Issue of Mondi Limited shares under employee share schemes	–	22	(18)	4
Shares vested from Mondi Incentive Schemes Trust	–	(46)	–	(46)
Reclassification	–	3	(3)	–
At 31 December 2012	4,188	821	(85)	4,924

7 Contingent liabilities

Contingent liabilities for the company comprise aggregate amounts as at 31 December 2012 of R75 million (2011: R73 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 2012 which comprise the parent company balance sheet and the related notes 1 to 8. 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 2012 and of its profit for the year then ended;
- 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.

Independent auditor's report to the members of Mondi plc continued

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 2012.

Nicola Mitchell (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
20 February 2013

Mondi plc parent company balance sheet

as at 31 December 2012

€ million	Notes	2012	2011
Fixed asset investments	5	2,938	2,938
Total non-current assets		2,938	2,938
Trade and other receivables		3	13
Cash and cash equivalents		108	2
Total current assets		111	15
Total assets		3,049	2,953
Trade and other payables		(17)	(8)
Total current liabilities		(17)	(8)
Non-current provisions		(1)	(1)
Total non-current liabilities		(1)	(1)
Total liabilities		(18)	(9)
Net assets		3,031	2,944
Equity			
Ordinary share capital	6;7	103	103
Retained earnings	7	2,914	2,828
Share-based payments reserve	7	14	13
Total equity		3,031	2,944

The balance sheet of Mondi plc and related notes were approved by the board and authorised for issue on 20 February 2013 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 2012

1 Accounting policies

Basis of preparation

The financial statements of Mondi plc have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 chief financial officer's report 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.

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 2012 was 19 (2011: 19). Wages and salaries of €12 million (2011: €13 million), including social security costs of €4 million (2011: €2 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:

2012/ <i>Scheme</i>	1 January	Shares conditionally awarded	Shares vested	Shares lapsed	31 December
BSP	719,595	169,222	(298,327)	–	590,490
LTIP	2,717,782	495,956	(1,559,252)	(135,033)	1,519,453
Total	3,437,377	665,178	(1,857,579)	(135,033)	2,109,943

The total fair value charge in respect of these awards for the year ended 31 December 2012 was €3 million (2011: €3 million).

The share schemes and the underlying assumptions used to estimate the associated fair value charge are set out in note 28 of the Group's combined and consolidated financial statements.

Notes to the Mondi plc parent company financial statements continued

for the year ended 31 December 2012

5 Fixed asset investments

€ million	2012	2011
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 Ordinary share capital

Full disclosure of the share capital of Mondi plc is made in note 27 of the Group's combined and consolidated financial statements.

7 Reconciliation of shareholders' funds

€ million	Share capital	Retained earnings	Share-based payments reserve	Total
At 1 January 2011	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
Dividends paid	–	(97)	–	(97)
Mondi share schemes' charge	–	–	8	8
Issue of shares under employee share schemes	–	7	(7)	–
Purchase of treasury shares	–	(29)	–	(29)
Retained profit after tax	–	205	–	205
At 31 December 2012	103	2,914	14	3,031

8 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 (2011: €nil). The fair value of these issued financial guarantees is deemed to be immaterial.

Group financial record

Financial performance 2008 – 2012¹

Combined and consolidated income statement

€ million	2012	(Restated) 2011 ²	(Restated) 2010 ²	(Restated) 2009 ²	(Restated) 2008 ²
Group revenue (after inter-segmental revenue elimination)					
Europe & International					
Packaging Paper	1,427	1,537	1,324	891	1,109
Fibre Packaging	1,818	1,848	1,698	1,570	2,122
Consumer Packaging	498	367	341	307	382
Uncoated Fine Paper	1,453	1,409	1,387	1,221	1,391
Total Europe & International	5,196	5,161	4,750	3,989	5,004
South Africa Division	544	490	445	330	362
Disposed and discontinued operations ²	67	88	415	938	979
Total Group revenue	5,807	5,739	5,610	5,257	6,345
Underlying operating profit/(loss)					
Europe & International					
Packaging Paper	227	295	178	25	139
Fibre Packaging	101	86	52	63	57
Consumer Packaging	19	25	22	17	12
Uncoated Fine Paper	191	205	179	146	126
Total Europe & International	538	611	431	251	334
South Africa Division	68	63	71	38	118
Corporate & other businesses	(33)	(33)	(33)	(37)	(39)
Disposed and discontinued operations ²	(5)	(19)	(11)	42	28
Underlying operating profit	568	622	458	294	441
Special items	(91)	(55)	(21)	(133)	(387)
Net income from associates	1	1	2	2	2
Total profit from operations and associates	478	568	439	163	56
Net finance costs	(107)	(111)	(106)	(114)	(159)
Profit/(loss) before tax	371	457	333	49	(103)
Tax charge	(92)	(100)	(82)	(52)	(78)
Profit/(loss) from continuing operations	279	357	251	(3)	(181)
Profit from discontinued operation	–	14	34	–	–
Net gain on distribution of discontinued operation	–	29	–	–	–
Profit/(loss) for the financial year	279	400	285	(3)	(181)
Non-controlling interests	(35)	(70)	(61)	(30)	(30)
Profit/(loss) attributable to equity holders of the parent companies	244	330	224	(33)	(211)
Underlying earnings³	336	340	206	95	172

Notes:

¹ Prepared on a combined and consolidated basis and in accordance with applicable IFRS.

² Comparative information has been restated to reflect the change in operating segments, the disposals of Aylesford Newsprint and Europapier AG, and the demerger of Mpack Limited, formerly Mondi Packaging South Africa (Proprietary) Limited.

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.

Group financial record continued

Financial performance 2008 – 2012 continued

Key performance indicators

%	2012	2011	2010 ¹	2009 ¹	2008 ¹
EBITDA margin ²	15.9	16.8	14.2	12.3	12.8
Operating margin ³	9.8	10.8	8.2	5.6	7.0
ROCE ⁴	13.7	15.0	12.3	7.6	9.5

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	2012	2011	2010 ¹	2009 ¹	2008 ¹
EBITDA ²	923	964	882	645	814
Cash generated from operating activities	740	834	734	867	795
Capital expenditure cash outflows ³	(298)	(263)	(394)	(517)	(693)

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	2012	2011	2010	2009	2008
Non-current assets	4,755	3,971	4,693	4,476	4,208
Current assets ¹	1,802	1,482	1,717	1,609	1,898
Total assets	6,557	5,453	6,410	6,085	6,106
Current liabilities ²	(1,162)	(1,020)	(1,185)	(1,159)	(1,154)
Non-current liabilities ³	(655)	(567)	(637)	(585)	(566)
Total liabilities	(1,817)	(1,587)	(1,822)	(1,744)	(1,720)
Net assets excluding net debt	4,740	3,866	4,588	4,341	4,386
Equity	2,572	2,586	2,763	2,399	2,323
Non-controlling interests	304	449	461	425	373
Net debt	1,864	831	1,364	1,517	1,690
Total equity and net debt	4,740	3,866	4,588	4,341	4,386

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

		2012	(Restated) 2011
Europe & International			
Containerboard	Tonnes	2,079,005	2,009,984
Kraft paper	Tonnes	980,637	955,741
Softwood pulp	Tonnes	1,978,583	1,954,284
Internal consumption	Tonnes	1,825,916	1,799,577
External	Tonnes	152,667	154,707
Corrugated board and boxes	Mm ²	1,213	1,213
Industrial bags	M units	3,829	3,958
Coatings and release liner	Mm ²	3,352	3,357
Consumer packaging ¹	Tonnes	121,127	69,005
Uncoated fine paper	Tonnes	1,417,709	1,400,991
Newsprint	Tonnes	201,278	199,337
Hardwood pulp	Tonnes	1,059,140	1,033,226
Internal consumption	Tonnes	972,883	975,121
External	Tonnes	86,257	58,105
South Africa Division			
Containerboard	Tonnes	263,468	257,680
Uncoated fine paper	Tonnes	257,747	233,837
Hardwood pulp	Tonnes	658,368	637,205
Internal consumption	Tonnes	320,772	316,388
External	Tonnes	337,596	320,817
Softwood pulp ²	Tonnes	169,724	182,651
Internal consumption	Tonnes	169,724	182,651
Newsprint	Tonnes	114,854	124,914

Notes:

¹ Includes Nordenia from October 2012.

² Restated to include proportionate share of Mondi Shanduka Newsprint production.

Exchange rates

	2012	2011
Closing rates against the euro		
South African rand	11.17	10.48
Czech koruna	25.15	25.79
Polish zloty	4.07	4.46
Pounds sterling	0.82	0.84
Russian rouble	40.33	41.77
Turkish lira	2.36	2.44
US dollar	1.32	1.29
Average rates for the period against the euro		
South African rand	10.55	10.10
Czech koruna	25.14	24.59
Polish zloty	4.18	4.12
Pounds sterling	0.81	0.87
Russian rouble	39.91	40.88
Turkish lira	2.31	2.34
US dollar	1.29	1.39

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 2012 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 proxy is not entitled to delegate the proxy's authority to act on behalf of a member to another person. A member that is a corporation may appoint one or more individuals to act on its behalf at a general meeting or class meeting as a corporate representative.

Restrictions on voting

No member shall be entitled to vote either in person or by proxy at any general meeting or class meeting in respect of any shares held by him if any call or other sum then payable by him in respect of that share remains unpaid. In addition no member shall be entitled to vote if he has been served with a notice after failure to provide Mondi plc with information concerning interests in those shares required to be provided under the Companies Act.

Deadlines for exercising voting rights

Votes are exercisable at a general meeting of Mondi plc in respect of which the business being voted upon is being heard. Votes may be exercised in person, by proxy, or in relation to corporate members, by corporate representatives. The Articles provide a deadline for submission of proxy forms of not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting.

Variation of rights

Subject to the Companies Act, the Articles specify that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting the quorum shall be two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* with them.

Where, under an employee share plan operated by Mondi plc, participants are the beneficial owners of the shares but not the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participant.

Transfer of shares

All transfers of shares which are in certificated form may be effected by transfer in writing in any usual or common form or in any other form acceptable to the directors. The instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully-paid shares) by or on behalf of the transferee and shall specify the name of the transferor, the name of the transferee and the number of shares being transferred. 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.

Additional information for Mondi plc shareholders

continued

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 at least one-third of the directors, including at least one-third of non-executive 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 2013 to amend the 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 2012 Mondi Limited had 118,312,975 ordinary shares in issue and Mondi plc had 367,240,805 ordinary shares in issue, of which 168,053,437 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
42,288	96.18	1 – 500	736,150	0.62
431	0.98	501 – 1,000	311,758	0.26
508	1.15	1,001 – 5,000	1,133,239	0.96
466	1.06	5,001 – 50,000	8,784,815	7.43
251	0.57	50,001 – 1,000,000	48,165,256	40.71
25	0.06	1,000,001 – highest	59,181,757	50.02
43,969	100.00		118,312,975	100.00

Mondi plc

Number of shareholders	% of shareholders	Size of shareholding	Number of shares	% of shares
4,970	77.24	1 – 500	534,004	0.14
474	7.37	501 – 1,000	349,770	0.10
482	7.49	1,001 – 5,000	1,062,851	0.29
252	3.92	5,001 – 50,000	4,550,582	1.24
215	3.34	50,001 – 1,000,000	50,410,679	13.73
41	0.64	1,000,001 – highest	310,332,919	84.50
6,434	100.00		367,240,805	100.00

By type of holding

Mondi Limited

	No. of holders	No. of shares	% of shares
Public ¹	43,965	117,734,610	99.51
Non-public	4	578,365	0.49
<i>Directors of Mondi Limited/Mondi plc</i>	3	28,430	0.02
<i>Mondi staff share schemes²</i>	1	549,935	0.47
Total	43,969	118,312,975	100.00

Mondi plc

	No. of holders	No. of shares	% of shares
Public ¹	6,423	364,965,168	99.38
Non-public	11	2,275,637	0.62
<i>Directors of Mondi Limited/Mondi plc</i>	9	712,940	0.19
<i>Mondi staff share schemes²</i>	2	1,562,697	0.43
Total	6,434	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, 2000 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, a free online service offered by Capita, at www.capitashareportal.com.

Shareholder information continued

Financial calendar

3 May 2013	2013 annual general meetings
3 May 2013	Interim management statement
16 May 2013	Payment date for 2012 final dividend (see below)
8 August 2013	2013 half-yearly results announcement
September 2013	2013 interim dividend payment
6 November 2013	Interim management statement

Dividends

Dividend payments

An interim dividend for the year ended 31 December 2012 of 90.44358 rand cents/8.90 euro cents per share was paid on 18 September 2012 to all Mondi Limited and Mondi plc ordinary shareholders on the relevant registers on 24 August 2012.

A proposed final dividend for the year ended 31 December 2012 of 19.1 euro cents per ordinary share will be paid on 16 May 2013 to those shareholders on the register of Mondi plc on 19 April 2013. An equivalent South African rand final dividend of 225.16629 rand cents per ordinary share will be paid on 16 May 2013 to shareholders on the register of Mondi Limited on 19 April 2013. 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 2013.

Dividend timetable

The proposed final dividend for the year ended 31 December 2012 of 225.16629 rand cents/19.1 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	12 April 2013	12 April 2013
London Stock Exchange	Not applicable	16 April 2013
Shares commence trading ex-dividend		
JSE Limited	15 April 2013	15 April 2013
London Stock Exchange	Not applicable	17 April 2013
Record date		
JSE Limited	19 April 2013	19 April 2013
London Stock Exchange	Not applicable	19 April 2013
Last date for receipt of Dividend Reinvestment Plan (DRIP) elections by Central Securities Depository Participants	25 April 2013	25 April 2013
Last date for DRIP elections to UK Registrar and South African Transfer Secretaries by shareholders of Mondi Limited and Mondi plc	26 April 2013	21 April 2013*
Payment date		
South African Register	16 May 2013	16 May 2013
UK Register	Not applicable	16 May 2013
DRIP purchase settlement dates	24 May 2013	21 May 2013**
Currency conversion dates		
ZAR/euro	21 February 2013	21 February 2013
Euro/sterling	Not applicable	30 April 2013

* 26 April 2013 for Mondi plc South African branch register shareholders

** 24 May 2013 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 15 April 2013 and 21 April 2013, both dates inclusive, nor may transfers between the UK and South African registers of Mondi plc take place between 10 April 2013 and 21 April 2013, both dates inclusive.

Dividend tax will be withheld from the amount of the gross final dividend paid to Mondi Limited shareholders and Mondi plc shareholders on the South African branch register at the rate of 15%, unless a shareholder qualifies for an exemption.

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 11 870 8207 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 or call 0845 606 1234 if calling from the UK or +44 20 7066 1000 if calling from outside the UK.

Shareholders can also contact Capita Registrars or Link Market Services South Africa (Proprietary) Limited as appropriate using the contact details provided or Mondi's company secretarial department on +44 (0)1932 826300.

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.

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Registered No. 6209386

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Glossary of terms

This report contains a number of terms which are explained below. For a detailed glossary of sustainability terms refer to our Sustainable development report 2012 at  www.mondigroup.com/sd12.


CoC	Chain-of-Custody (CoC) is a tracking system that allows manufacturers and traders to demonstrate that timber comes from a forest that is responsibly managed in accordance with credible standards such as FSC Controlled Wood Standard (FSC-STD-40-005 V.2) or PEFC Mandatory Guide for the Avoidance of Controversial Timber.
EBITDA	Operating profit of subsidiaries and joint ventures before special items, depreciation and amortisation.
FSC	Forest Stewardship Council™ (FSC™) is an international not-for-profit, multi-stakeholder organisation established in 1993 to promote socially and environmentally responsible management of the world's forests by way of standard setting, third party certification and labelling of forest products.
Gearing	The ratio of net debt to total equity plus net debt.
GHG	Greenhouse gases (GHG) are gases listed in the Kyoto Protocol of the UN-FCCC that contribute to the greenhouse effect and are regulated by the Kyoto Protocol.
GRI	The Global Reporting Initiative (GRI) is a not-for-profit organisation that produces one of the world's most prevalent standards for sustainability reporting.
Net debt	A measure comprising short- medium- and long-term borrowings and bank overdrafts less cash and cash equivalents and current financial asset investments.
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 those strategic projects which are not yet in production.
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.
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 compensated occupational illnesses) divided by the number of hours worked per 200,000 man hours.
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.

For further information, please see:


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SD *Sustainable development report 2012*

Published exclusively on our website at  www.mondigroup.com/sd12

SSF *Shaping our sustainable future*

Mondi's response to global sustainability issues at  www.mondigroup.com/ssf12

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Forward-looking statements

This document includes forward-looking statements. All statements other than statements of historical facts included herein, including, without limitation, those regarding Mondi's financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Mondi, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding Mondi's present and future business strategies and the environment in which Mondi will operate in the future. Among the important factors that could cause Mondi's actual results, performance or achievements to differ materially from those in the forward-looking statements include, but are not limited to, those discussed under Principal risks and uncertainties, on pages 59 to 61. 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.