mpact

smarter, sustainable solutions

Closing the loop

Mpact Limited Unaudited Interim Results

for the six months ended 30 June 2019
and declaration of a cash dividend

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

Salient features

- *Revenue increased by 4.2% to R5.2 billion (June 2018: R5.0 billion)*
- *Underlying operating profit up 29.4% to R218 million (June 2018: R168 million)*
- *Underlying earnings per share up 25.1% to 39.4 cents (excluding IFRS 16, up 47.9%)*
- *Return on Capital Employed ("ROCE") increased to 10.3% (June 2018: 7.4%)*
- *Interim gross cash dividend up 20.0% to 18 cents per share (June 2018: 15 cents per share)*

Company profile

Mpact is the largest paper and plastics packaging and recycling business in Southern Africa with customers that include packaging converters, fruit producers, FMCG companies and other consumer and industrial packaging companies. Mpact's integrated business model is uniquely focussed on closing the loop in plastic and paper packaging through recycling and beneficiation of recyclables.

Mpact has 43 operating sites, 21 of which are manufacturing operations, located in South Africa, Namibia and Mozambique. Sales in South Africa accounted for approximately 87% of Mpact's total revenue for the current period, while the balance was predominantly to customers in the rest of Africa.

Mpact Operations (Pty) Ltd, the major subsidiary of the Group is a B-BBEE Level 1 contributor.

As at 30 June 2019 Mpact employed 5,187 people (December 2018: 5,062 people).

Group performance

The Group's improved financial results for the six months ended 30 June 2019 reflect further benefits from recent capital investments which more than offset the effects of a challenging trading environment and unfavourable market conditions.

Group revenue of R5.2 billion was 4.2% higher than the comparable prior period, with external sales volumes increasing by approximately 1%.

Underlying operating profit of R217.7 million was 29.4% higher than the comparable prior period (June 2018: R168.3 million) primarily due to improved containerboard margins.

Paper business

Revenue of R4.1 billion increased by 4.1%, with sales volumes in line with the prior period. Sales volumes in Recycling increased off a low base, while volumes in the rest of the Paper business declined 8.1%, primarily due to lower containerboard exports, which were affected by oversupply globally.

From 1 January 2019, Mpact increased its shareholding in West Coast Paper Traders (WCPT) to 60% (June 2018: 49%). The effect of consolidating WCPT was 0.6% in external revenue.

Working capital at the end of the period was high because of excess stock carried through from the first quarter of the year, as sales in both the domestic and export markets did not meet forecast. During the second quarter, all three paper machines took commercial downtime and external containerboard purchases were reduced to manage inventory.

Notwithstanding the decreased sales volumes, underlying operating profit of R295.9 million increased by 35.0%, mainly as a result of improved containerboard margins.

Plastics business

Revenue of R1.1 billion was 3.3% higher than the comparable prior period, with plastics converting volumes declining by 2.7% on the back of subdued demand.

Underlying operating profit in the Plastics converting business was at a breakeven (June 2018: R25.5 million) due to continued price pressures across all businesses with the biggest impact being in trays and films.

Mpact Polymers reported an operating loss of R37.5 million (June 2018: R38.4 million), due to low throughput and selling prices. Total sales volumes increased 22% when compared to the prior period to 3,783 tons, but benchmark recycled PET selling prices declined 6.5%.

The new label washing and wet grinding equipment was installed during the period with the latter currently being optimised. These additions will increase throughput, reduce dirt and other contaminants carried forward to the wash plant and thus improve product quality.

Net finance costs

Net finance costs, before the new accounting lease standard (IFRS 16), reduced by 3.4% to R108.6 million. However, after the interest charged on lease liabilities of R20.1 million in terms of IFRS 16, net finance costs increased by 14.5% to R128.7 million (June 2018: R112.4 million).

Tax

The effective tax rate for the period was 29.1% (June 2018: 29.6%), higher than the statutory rate of 28% mainly owing to the non-recognition of deferred tax in Mpact Polymers.

Earnings per share

Basic and headline earnings per share for the period were 40.2 cents (June 2018: 29.7 cents) and 39.0 cents (June 2018: 30.5 cents), respectively. Underlying earnings per share increased by 25.1% to 39.4 cents (June 2018: 31.5 cents). Underlying earnings per share before the effects of adopting IFRS 16 increased by 47.9% to 46.6 cents.

Net debt

Net debt increased to R3.0 billion (June 2018: R2.2 billion), mainly due to adopting IFRS 16 and increases in working capital.

Mpact has concluded the refinancing of R2.6 billion of its bank facilities, subject to the fulfilment of certain conditions precedent.

OUTLOOK

There is currently no indication of any meaningful improvement in the South African economy. We do nevertheless expect better sales to the agricultural sector during the second half of the year as a consequence of good growth in citrus fruit volumes.

Recovered paper prices in the domestic market are stable, with the effects of waste-import-policy implementation in China and other Southeast Asian countries offsetting lower collections in South Africa.

Containerboard sales volumes are likely to remain under pressure due to global supply and demand, which may affect profit margins in the second half of the year. We expect to mitigate some of the effects through cost savings, higher efficiencies and improved product mix.

Our focus at Mpact Polymers is on improving plant yield, quality and throughput, whilst also realising sustainable prices for SavukaPET.

Mpact's integrated business model is uniquely focused on closing the loop in paper and plastic packaging through recycling and beneficiation. We continue to work with our customers in developing new processes, products and opportunities that enable them to realise their sustainability goals.

Cash dividend

Notice is hereby given that the Board has declared a final gross cash dividend of 18 cents for the six months ended 30 June 2019 (14.40 cents net of dividend withholding tax) per ordinary share. The dividend has been declared from income reserves. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The Company's total number of issued ordinary shares at the date of this announcement is 173,304,517. Mpact's income tax reference number is 9003862175.

Salient dates for the cash dividend distribution

	2019
Publication of dividend declaration	Wednesday, 7 August
Last day of trade to receive a dividend	Tuesday, 3 September
Shares commence trading "*ex*" dividend	Wednesday, 4 September
Record date	Friday, 6 September
Payment date	Monday, 9 September

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

Share certificates may not be dematerialised or rematerialised between Wednesday, 4 September 2019 and Friday, 6 September 2019, both days inclusive.

BOARD

There has been no change to the Board of Directors for the period ended 30 June 2019.

AJ Phillips
Chairman

BW Strong
Chief Executive Officer

7 August 2019

Condensed consolidated interim statement of profit or loss and other comprehensive income

for the six months ended 30 June 2019

	Notes	**Unaudited Six months ended 30 June 2019 R'm**	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
Revenue from contracts with customers	4	**5,182.3**	4,976.0	10,612.3
Cost of sales		**(3,206.3)**	(3,194.0)	(6,576.8)
Gross profit		**1,976.0**	1,782.0	4,035.5
Administration and other operating expenditure		**(1,758.3)**	(1,617.8)	(3,416.4)
Operating profit	5	**217.7**	164.2	619.1
Share of (loss)/profit from equity accounted investees		**(4.0)**	11.4	23.3
Fair value loss on remeasurement of investment in equity accounted investee	14	**(0.6)**	–	–
Gain on bargain purchase on acquisition	14	**1.9**	–	–
Net profit on sale of joint arrangements and subsidiaries	13	**–**	2.0	6.7
Profit from operations and equity accounted investees		**215.0**	177.6	649.1
Net finance costs		**(128.7)**	(112.4)	(219.9)
Investment income		**10.9**	5.4	12.2
Finance costs	6	**(139.6)**	(117.8)	(232.1)
Profit before taxation		**86.3**	65.2	429.2
Taxation		**(25.1)**	(19.6)	(102.2)
Profit for the period		**61.2**	45.6	327.0
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains on post-retirement benefit schemes		**–**	–	10.7
Tax effect		**–**	–	(3.0)
Fair value adjustment of investment in equity instrument		**–**	–	(20.5)
Items that may be reclassified subsequently to profit or loss				
Effect of cash flow hedges		**0.8**	4.0	5.6
Tax effect		**(0.2)**	(1.1)	(1.6)
Exchange differences on translation of foreign operations		**–**	0.8	(1.2)
Other comprehensive income/(loss) for the period net of tax		**0.6**	3.7	(10.0)
Total comprehensive income for the period		**61.8**	49.3	317.0
Profit/(loss) attributable to:				
Equity holders of Mpact		**68.7**	50.5	316.2
Non-controlling interests		**(7.5)**	(4.9)	10.8
Profit for the period		**61.2**	45.6	327.0
Total comprehensive income/(loss) attributable to:				
Equity holders of Mpact		**69.3**	54.2	306.2
Non-controlling interests		**(7.5)**	(4.9)	10.8
Total comprehensive income for the period		**61.8**	49.3	317.0
Earnings per share (EPS) for profit attributable to equity holders of Mpact	7			
Basic EPS (cents)		**40.2**	29.7	185.1
Diluted EPS (cents)		**40.0**	29.6	184.9

Condensed consolidated interim statement of financial position

as at 30 June 2019

	Notes	Unaudited as at 30 June 2019 R'm	Unaudited as at 30 June 2018 R'm	Audited as at 31 December 2018 R'm
ASSETS				
Goodwill and other intangible assets		**1,124.0**	1,106.7	1,102.0
Property, plant and equipment		**3,728.7**	3,760.2	3,737.3
Right of use assets		**377.2**	–	–
Investments in equity accounted investees		**51.8**	106.0	108.1
Financial asset investments		**91.4**	42.1	94.8
Deferred tax assets		**7.2**	6.4	8.6
Non-current assets		**5,380.3**	5,021.4	5,050.8
Inventories		**1,999.9**	1,542.7	1,748.1
Trade and other receivables		**2,261.1**	2 ,262.5	2 ,352.9
Cash and cash equivalents		**157.0**	441.4	705.9
Derivative financial instruments		**2.7**	3.6	0.9
Current tax receivable		**24.0**	20.8	20.5
Disposal group asset		**–**	29.1	–
Current assets		**4,444.7**	4,300.1	4,828.3
Total assets		**9,825.0**	9,321.5	9,879.1
EQUITY AND LIABILITIES				
Capital and reserves				
Stated capital	8	**2,669.2**	2,653.9	2,669.2
Retained earnings		**1,709.7**	1,460.5	1,722.3
Other reserves		**24.8**	48.9	26.6
Total attributable to equity holders of Mpact		**4,403.7**	4,163.3	4,418.1
Non-controlling interests in subsidiaries		**147.6**	98.1	110.8
Total equity		**4,551.3**	4,261.4	4,528.9
Interest and non-interest-bearing borrowings	9	**1,390.1**	1,390.5	1,400.8
Lease liabilities		**371.1**	–	–
Retirement benefits obligation		**40.7**	49.8	40.2
Deferred tax liabilities		**242.4**	211.1	227.3
Deferred income		**15.2**	20.8	18.0
Derivative financial instruments		**3.0**	5.5	3.9
Non-current liabilities		**2,062.5**	1,677.7	1,690.2
Short-term portion of borrowings	9	**1,332.3**	1,268.0	1,429.7
Lease liabilities		**63.7**	–	–
Trade and other payables		**1,801.2**	2,080.2	2,213.6
Provisions		**4.2**	4.3	6.2
Deferred income		**5.5**	5.5	5.5
Derivative financial instruments		**3.5**	5.1	0.7
Current tax liabilities		**0.8**	–	4.3
Disposal group liability		**–**	19.3	–
Current liabilities		**3,211.2**	3,382.4	3,660.0
Total liabilities		**5,273.7**	5,060.1	5,350.2
Total equity and liabilities		**9,825.0**	9,321.5	9,879.1

Condensed consolidated interim statement of changes in equity

for the six months ended 30 June 2019

	Stated capital R'm	Share-based payment reserve R'm	Cash flow hedge reserve R'm	Post-retirement benefit reserve R'm	Other reserves[1] R'm	Retained earnings R'm	Total attributable to equity holders of Mpact Limited R'm	Non-controlling interest R'm	Total equity R'm
Balance at 31 December 2017 (audited)	2,621.4	47.7	(6.9)	18.8	(18.3)	1,470.7	4,133.4	109.5	4,242.9
Total comprehensive income for the period	–	–	2.9	–	0.8	50.5	54.2	(4.9)	49.3
Dividends paid[2]	32.5	–	–	–	(0.8)	(67.8)	(36.1)	–	(36.1)
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	(6.5)	(6.5)
Share plan charges for the period	–	14.5	–	–	–	–	14.5	–	14.5
Issue/exercise of shares under employee share scheme	–	(25.0)	–	–	15.2	7.1	(2.7)	–	(2.7)
Balance at 30 June 2018 (unaudited)	**2,653.9**	**37.2**	**(4.0)**	**18.8**	**(3.1)**	**1,460.5**	**4,163.3**	**98.1**	**4,261.4**
Total comprehensive income for the period	–	–	1.1	7.7	(22.5)	265.7	252.0	15.7	267.7
Dividends paid[2]	15.3	–	–	–	(0.2)	(25.7)	(10.6)	–	(10.6)
Purchase of treasury shares	–	–	–	–	(22.1)	–	(22.1)	–	(22.1)
Share plan charges for the period	–	13.7	–	–	–	–	13.7	–	13.7
Issue/exercise of shares under employee share scheme	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Purchase of preference shares by non-controlling interest	–	–	–	–	–	–	–	18.9	18.9
Increase in shareholding by non- controlling interest	–	–	–	–	–	21.9	21.9	(21.9)	–
Balance at 31 December 2018 (audited)	**2,669.2**	**50.9**	**(2.9)**	**26.5**	**(47.9)**	**1,722.3**	**4,418.1**	**110.8**	**4,528.9**
Total comprehensive income for the period	–	–	0.6	–	–	68.7	69.3	(7.5)	61.8
Dividends paid[2]	–	–	–	–	–	(94.3)	(94.3)	–	(94.3)
Dividend paid to non-controlling interest	–	–	–	–	–	–	–	(9.4)	(9.4)
Purchase of preference shares by non-controlling interest	–	–	–	–	–	–	–	15.5	15.5
Acquisition of subsidiaries with non-controlling interest (see note 14)	–	–	–	–	–	–	–	38.2	38.2
Share plan charges for the period	–	15.5	–	–	–	–	15.5	–	15.5
Issue/exercise of shares under employee share scheme	–	(28.7)	–	–	10.8	13.0	(4.9)	–	(4.9)
Balance at 30 June 2019 (unaudited)	**2,669.2**	**37.7**	**(2.3)**	**26.5**	**(37.1)**	**1,709.7**	**4,403.7**	**147.6**	**4,551.3**

[1] *Other reserves consist of foreign currency translation reserve, treasury shares and fair value adjustments to equity investments.*

[2] *Dividends declared amounted to R94.3 million (30 June 2018: R67.8 million, 31 December 2018: R93.5 million) of which Rnil (30 June 2018: R32.5 million, 31 December 2018: R47.8 million) related to a capitalisation issue, of which Rnil (30 June 2018: R0.8 million, 31 December 2018: R1.0 million) were issued to the Mpact Incentive Share Trust.*

Condensed consolidated interim statement of cash flows

for the six months ended 30 June 2019

	Notes	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
Cash flows from operating activities				
Operating cash flows before movements in working capital		**567.2**	439.5	1,217.6
Net increase in working capital		**(487.4)**	(43.1)	(234.8)
Cash generated from operations	16	**79.8**	396.4	982.8
Dividends from equity accounted investees		**4.4**	5.4	14.2
Taxation paid		**(31.9)**	(5.7)	(72.2)
Net cash inflows from operating activities		**52.3**	396.1	924.8
Cash flows from investing activities				
Acquisition of subsidiary	14	**0.2**	–	–
Additions to property, plant and equipment and intangibles assets		**(246.6)**	(241.6)	(534.1)
Other investing activities		**20.8**	14.3	15.7
Net cash outflows from investing activities		**(225.6)**	(227.3)	(518.4)
Cash flows from financing activities				
Net borrowings (paid)/raised		**(121.1)**	86.7	230.9
Repayment of lease liabilities		**(36.6)**	–	–
Finance costs paid		**(133.3)**	(117.3)	(229.0)
Purchase of treasury shares		**–**	–	(22.1)
Dividends paid to Mpact shareholders		**(94.3)**	(36.1)	(46.7)
Other financing activities		**6.2**	(6.5)	12.4
Net cash outflows from financing activities		**(379.1)**	(73.2)	(54.5)
Net (decrease)/increase in cash and cash equivalents		**(552.4)**	95.6	351.9
Net cash and cash equivalents at beginning of year[1]		**694.7**	342.8	342.8
Net cash and cash equivalents at end of year[1]		**142.3**	438.4	694.7

[1] *Net cash and equivalents comprise of cash and cash equivalents of R157.0 million (30 June 2018: R441.4 million, 31 December 2018: R705.9 million) and bank overdrafts of R14.7 million (30 June 2018: R3.0 million, 31 December 2018: R11.2 million).*

Notes to the condensed consolidated interim financial statements

for the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards and contain information required by IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (IASB). The condensed consolidated interim financial statements are in compliance with the JSE Limited's Listings Requirements, the South African Companies Act, 2008, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The condensed consolidated interim financial statements are presented in South African Rand, which is the Group's functional currency.

The condensed consolidated interim financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments measured at fair value. The results of the interim period should be read in conjunction with the audited financial statements for the year ended 31 December 2018.

Underlying earnings is arrived at adjusting profit attributable to equity holders of Mpact for special items, net of tax and is a non-IFRS measure. It is included to provide an additional basis on which to measure the Group's earning performance.

The preparation of the Group's consolidated results for the half year ended 30 June 2019 was supervised by the Chief Financial Officer, BDV Clark CA(SA). These results are unaudited and unreviewed.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Significant accounting policies

The accounting policies and methods of computation used are in terms of International Financial Reporting Standards (IFRS) and are consistent with those applied in the preparation of the annual consolidated financial statements for the year ended 31 December 2018.

The following accounting standards and interpretations were adopted in the current period:

IFRS 16

The Group adopted IFRS 16 using the modified retrospective method with the effective date of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect recognised in retained earnings.

On adoption, the Group applied the following practical expedients:

- Applied the standard only to contracts that were previously identified as operating leases under IAS 17 and IFRIC 4.
- Used the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluded the initial direct costs from the measurement of the right-of-use asset.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases.

The right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate of the Group and each subsidiary of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS *(continued)*

IFRS 16 *(continued)*

The effect of adopting IFRS 16 as at 1 January 2019 is as follows:

	2019 R'm Increase/(decrease)
Assets	
Right-of-use assets	427.4
Total assets	427.4
Liabilities	
Non-current portion of interest-bearing borrowings	390.0
Current portion of interest-bearing borrowings	77.2
Total lease liability	467.2
Non-current provisions	(1.2)
Trade and other payables	(38.6)
Total liabilities	427.4
The lease liabilities were calculated using a weighted average incremental borrowing rate of between 8.8% to 10.5%. The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:	
External operating lease commitments as at 31 December 2018	368.7
Commitments relating to short-term leases	(4.5)
Commitments relating to leases of low-value assets	(0.4)
Payments in optional extension periods not recognised as at 31 December 2018	224.5
Discount effect using the incremental borrowing rate	(121.1)
Lease liabilities as at 1 January 2019	467.2

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments require the Group to use the updated assumptions from the remeasurement of a net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendment is effective from 1 January 2019. These amendments had no impact on the Group as it did not have any plan amendments, curtailments, or settlements during the period.

IFRIC 23 – Uncertainty over income tax treatments

The interpretation specifies how the Group should reflect the effects of uncertainties in accounting for income taxes. The amendment is effective from 1 January 2019 and did not have an impact on the consolidated financial statements of the Group as it is probable that the Group's tax treatments will be accepted by the tax authorities.

Significant accounting judgements, estimates and assumptions

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements for the year ended 31 December 2018.

3. SEASONALITY

Seasonal effects in the Group's markets have historically resulted in higher revenue and operating profits for the second half, when compared to the first half.

4. SEGMENT INFORMATION

The Group's operating segments are reported in a manner consistent with the internal reporting provided to the Group's executive committee, being the chief operating decision-making body. The Group has two reportable segments namely, Paper and Plastics.

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 under IFRS 8: operating segments adhere to the recognition and measurement criteria presented in the Group's accounting policies. All goods sold to customers occur at a point in time.

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
Group segment analysis			
Revenue			
Paper	**4,078.3**	3,916.1	8,285.7
Plastics	**1,126.0**	1,090.1	2,381.9
Revenue before inter-segment revenue	**5,204.3**	5,006.2	10,667.6
Less: Inter-segment revenue	**(22.0)**	(30.2)	(55.3)
Total	**5,182.3**	4,976.0	10,612.3
External revenue by product type			
Recycled containerboard, cartonboard and other materials	**2,015.6**	1,975.6	4,041.5
Corrugated packaging, bags and sacks	**2,040.7**	1,910.4	4,189.1
Plastic packaging solutions	**1,126.0**	1,090.0	2,381.7
Total	**5,182.3**	4,976.0	10,612.3
External revenue by location of customer			
South Africa (country of domicile)	**4,633.6**	4,302.0	9,269.9
Rest of Africa	**484.4**	573.7	1,103.6
Rest of World	**64.3**	100.3	238.8
Total	**5,182.3**	4,976.0	10,612.3
Operating segment underlying operating profit/(loss)			
Paper	**295.9**	219.2	694.4
Plastics	**(37.4)**	(12.8)	49.5
Corporate	**(40.8)**	(38.1)	(71.5)
Operating profit before special items (underlying EBIT)	**217.7**	168.3	672.4
Special items[1]	**–**	(4.1)	(53.3)
Fair value loss on remeasurement of investment in equity accounted investee	**(0.6)**	–	–
Gain on bargain purchase on acquisition	**1.9**	–	–
Share of equity accounted investee's (loss)/profit	**(4.0)**	11.4	23.3
Net profit on sale of joint arrangements and subsidiaries	**–**	2.0	6.7
Net finance cost	**(128.7)**	(112.4)	(219.9)
Profit before tax	**86.3**	65.2	429.2
Assets			
Paper	**5,604.9**	5,246.9	5,475.3
Plastics	**1,935.1**	1,903.9	1,951.9
Corporate[2]	**2,285.0**	2,170.7	2,451.9
Total assets	**9,825.0**	9,321.5	9,879.1

[1] *30 June 2018: Consist of impairment of property, plant and equipment of R4.1 million, 31 December 2018: Consist of impairment of property, plant and equipment of R29.6 million, impairment on foreign cash balance of R4.8 million and impairment on an associate loan of R1.2 million, and restructure costs of R17.7 million.*

[2] *Includes intangible and other non-operating assets.*

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
5. OPERATING PROFIT			
Included in operating profit are:			
Amortisation of intangible assets	**7.7**	5.8	11.9
Amortisation of right of use assets	**49.3**	–	–
Depreciation of property, plant and equipment	**281.3**	269.3	554.2
Impairment charge on property, plant and equipment	**–**	4.1	29.6
Impairment charge on foreign cash balances	**–**	–	4.8
Net foreign currency losses/(gain)	**4.4**	(14.1)	(24.3)
6. FINANCE COSTS			
Bank and other borrowings	**117.1**	114.8	226.3
Leases liabilities	**20.6**	0.5	0.9
Defined benefit arrangements	**1.9**	2.5	4.9
Total	**139.6**	117.8	232.1
7. EARNINGS PER SHARE	**cents**	cents	cents
Earnings per share (EPS)			
Basic EPS (cents)	**40.2**	29.7	185.1
Diluted EPS (cents)	**40.0**	29.6	184.9
Headline earnings per share			
Basic headline EPS (cents)	**39.0**	30.5	195.6
Diluted headline EPS (cents)	**40.0**	30.4	195.3
Underlying earnings per share			
Basic underlying EPS (cents)	**39.4**	31.5	208.0
Diluted underlying EPS (cents)	**39.3**	31.5	207.7
The calculation of headline earnings, based on basic earnings is as follows:	**Rm**	Rm	Rm
Profit for the period attributable to equity holders of Mpact	**68.7**	50.5	316.2
Impairment of property, plant and equipment	**–**	4.1	29.6
Gain on bargain purchase on acquisition	**(1.9)**	–	–
Fair value loss on remeasurement of investment in equity accounted investee	**0.6**	–	–
Profit on sale of joint arrangements and subsidiaries	**–**	(2.0)	(6.7)
Profit on disposal of tangible and intangible assets	**(1.0)**	(0.6)	(0.1)
Related tax	**0.3**	(0.1)	(4.9)
Headline earnings for the period	**66.7**	51.9	334.1

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
7. EARNINGS PER SHARE *(continued)*			
Profit for the period attributable to equity holders of Mpact	**68.7**	50.5	316.2
Gain on bargain purchase on acquisition	**(1.9)**	–	–
Fair value loss on remeasurement of investment in equity accounted investee	**0.6**	–	–
Impairment of property, plant and equipment	**–**	4.1	29.6
Impairment of foreign cash balances	**–**	–	4.8
Impairment of loan to associate	**–**	–	1.2
Restructure costs	**–**	–	17.7
Related tax	**–**	(0.9)	(14.3)
Underlying earnings for the period	**67.4**	53.7	355.2
	Weighted average of shares		
Basic number of shares outstanding	**171,057,427**	170,308,325	170,784,638
Effect of dilutive potential ordinary shares	**592,398**	215,504	253,484
Diluted number of ordinary shares outstanding[1]	**171,649,825**	170,523,829	171,038,122

[1] *Diluted EPS is calculated by adjusting the weighted average number of ordinary shares in issue, on the assumption of conversion of all potentially dilutive ordinary shares.*

8. STATED CAPITAL	R'm	R'm	R'm
Authorised			
217,500,000 shares of no par value	**–**	–	–
Issued			
173,304,517 shares (30 June 2018: 172,645,908; 31 December 2018: 173,304,517) of no par value.	**2,669.2**	2,653.9	2,669.2
On 3 April 2018, 1,184,285 new ordinary shares and 10 September 2018, 658,609 new ordinary shares were issued to shareholders who elected to receive capitalisation shares in terms of the capitalisation issue in lieu of a cash dividend. As at 30 June 2019, there are 1,999,704 (June 2018: 1,388,239 December 2018: 2,403,309) treasury shares on hand.			

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
9. INTEREST AND NON-INTEREST-BEARING BORROWINGS			
– Secured interest-bearing borrowings[1]	**1,170.4**	1,384.1	1,183.0
– Secured non-interest-bearing borrowings	**217.7**	–	212.5
– Lease liabilities	**–**	3.6	2.9
– Instalment loan facility	**2.0**	2.8	2.4
Non-current borrowings	**1,390.1**	1,390.5	1,400.8
– Secured interest-bearing borrowings[1]	**1,301.3**	1,215.0	1,400.0
– Unsecured non-interest-bearing borrowings	**15.4**	45.4	15.4
– Lease liabilities	**–**	3.9	2.1
– Instalment loan facility	**0.9**	0.7	1.0
– Bank overdraft	**14.7**	3.0	11.2
Current borrowings	**1,332.3**	1,268.0	1,429.7
Total borrowings	**2,722.4**	**2,658.5**	**2,830.5**

The Company's borrowing powers are not restricted. The current portion of borrowings is expected to be repaid from operational cash flows and other borrowings.

[1] *The Group has pledged certain assets as collateral against certain borrowings.*

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
10. CAPITAL COMMITMENTS			
– Contracted capital commitments	**235.6**	144.7	142.3
– Approved capital commitments	**327.8**	384.4	596.5
Capital commitments	**563.4**	529.1	738.8

Commitments of R524.6 million (30 June 2018: R521.0 million; 31 December 2018: R738.8 million) will be spent in the next 12 months. The balance of R38.8 million (30 June 2018: R8.1 million; 31 December 2018: Rnil) will be spent in one to five years. These commitments will be met from existing cash resources and borrowing facilities available to the Group.

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm

11. FAIR VALUE ESTIMATION

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using standard valuation techniques. These valuation techniques maximise the use of observable market data were available and rely as little as possible on Group specific estimates.

The significant inputs required to fair value all of the Group's financial instruments are observable.

Specific valuation methodologies used to value financial instruments include:

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

Financial instruments by category

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
Financial assets			
Trade receivables[1] (At amortised cost)	**2,238.6**	2,262.5	2,336.1
Loan receivables (Level 2 – At amortised cost)	**91.4**	21.6	73.5
Pension fund asset[2] (Level 2 – At amortised cost)	**–**	–	21.3
Equity investments (Level 3 – At fair value through OCI)	**–**	20.5	–
Derivative financial instruments (Level 2 – At fair value through profit or loss)	**2.7**	3.6	0.9
Cash and cash equivalents[1] (At amortised cost)	**157.0**	441.4	705.9
Total	**2,489.7**	2,749.6	3,137.7
Financial liabilities			
Borrowings (Level 2 – At amortised cost)	**2,722.4**	2,658.5	2,830.5
Lease liabilities (Level 2 – At amortised cost)	**434.8**	–	–
Trade payables[1] (At amortised cost)	**1,801.2**	2,080.2	2,213.6
Derivative financial instrument (Level 2 – At fair value through profit or loss)	**6.5**	10.6	4.6
Total	**4,964.9**	4,749.3	5,048.7

[1] *The carrying value approximates the fair value.*
[2] *The Pension Fund Asset was settled in the current financial period.*

12. NET ASSET PER SHARE

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
Net asset value per share (cents)	**2,626.2**	2,468.3	2,613.3

Net asset value per share is defined as net assets divided by the number of ordinary shares in issue as at the period end.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 June 2019

13. DISPOSAL OF EQUITY ACCOUNTED INVESTEES AND SUBSIDIARIES

In the prior financial year, the Group had disposed of its entire interest in Pretoria Box Manufacturers, Rusmar Packaging (Pty) Limited, Shoebill (Pty) Limited and Pyramid Holdings (Pty) Limited.

At 30 June 2018 and 31 December 2018, a net profit of R2 million and R6.7 million, respectively was recognised in the statement of profit or loss.

14. BUSINESS COMBINATION

In terms of an agreement, on 1 January 2019 (acquisition date), the Group increased its shareholding in West Coast Paper Traders (Pty) Limited from 49% to 60% for R8 million following the fulfilment of all the conditions precedent. Following the increase in shareholding, West Coast Paper Traders (Pty) Limited was consolidated as a subsidiary in the Group's financial statements.

The Company's main business activity is in retail and wholesale of paper (paper merchants) and operates in South Africa. This complements the Group's paper manufacturing business.

The acquisition has been accounted for using the acquisition method in terms of IFRS 3.

The fair values of the identifiable assets and liabilities as at the date of acquisition were:

	Unaudited Six months ended 30 June 2019 R'm
Intangible assets	29.7
Property, plant and equipment	26.7
Loans receivable	4.8
Investment in equity accounted investees	0.6
Deferred tax asset	0.6
Inventories	28.0
Trade and other receivables	76.6
Cash and cash equivalents	8.2
Non-current interest-bearing borrowings	(5.8)
Deferred tax liability	(9.9)
Non-current lease liability	(3.5)
Trade and other payables	(58.4)
Current tax liability	(1.6)
Total identifiable net assets at fair value	96.0
Non-controlling interest measured at fair value	(38.2)
Carrying value of equity interest	(48.5)
Fair value loss on remeasurement of investment in equity accounted investee	0.6
Bargain purchase on acquisition	(1.9)
Purchase consideration transferred	8.0
Cash acquired	(8.2)
Net cash inflow	0.2

14. BUSINESS COMBINATION *(continued)*

Trade receivables had a gross contractual amount of R76.8 million and a provision for credit losses of R0.4 million. Transaction costs of R0.2 million have been expensed since the inception of the acquisition. These expenses were recognised in administration and other operating expenditure.

From acquisition date, West Coast Paper Traders (Pty) Limited has contributed R186.4 million of revenue and R8.2 million profit before tax to the continuing operations of the Group.

15. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) Contingent liabilities for the Group comprise aggregate amounts at 30 June 2019 of R10.7 million (2018: R10.6 million) in respect of loans and guarantees given to banks and other third parties.

(b) A Group mill is the subject of a land claim, which should not have a material impact on the financial position of the Group.

(c) There were no significant contingent assets for the Group at 30 June 2019.

(d) As advised to the shareholders on 26 May 2016, the Company was subject to a Competition Commission investigation. On 15 April 2019 the Competition Commission referred a complaint against the Company to the Competition Tribunal which will be adjudicated in due course. The Commission is not seeking the imposition of a penalty against Mpact.

16. CASH GENERATED FROM OPERATIONS

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
Profit before taxation	**86.3**	65.2	429.2
Depreciation, amortisation and impairments	**338.3**	279.2	595.7
Share-based payments	**15.5**	14.5	28.2
Net finance costs	**128.7**	112.4	219.9
Share of equity accounted investee loss/(profit)	**4.0**	(11.4)	(23.3)
Fair value loss on remeasurement of investment in equity accounted investee	**0.6**	–	–
Gain on bargain purchase on acquisition	**(1.9)**	–	–
Profit on sale of equity accounted investee	**–**	(2.0)	(6.7)
Decrease in provisions	**(2.1)**	(2.3)	(1.4)
Increase in inventories	**(224.0)**	(111.9)	(323.5)
Decrease/(increase) in receivables	**168.0**	7.7	(124.0)
Increase/(decrease) in payables	**(431.3)**	61.1	212.7
Profit on disposal of tangible assets	**(1.0)**	(0.6)	(0.1)
Fair value change on transactions not qualifying as hedges	**1.0**	(13.6)	(15.2)
Amortisation of government grant	**(2.8)**	(2.8)	(5.5)
Impairment of a loan to associate	**–**	–	1.2
Other non-cash items	**0.5**	0.9	(4.4)
Cash generated from operations	**79.8**	396.4	982.8

17. GROUP RESTRUCTURE

On 1 June 2019, Remade Recycling (Pty) Limited changed its name to Recycling Consolidated Holdings (Pty) Limited and thereafter acquired the net assets of Mpact Recycling (Pty) Limited.

Notes to the condensed consolidated interim financial statements (continued)

for the six months ended 30 June 2019

	Unaudited Six months ended 30 June 2019 R'm	Unaudited Six months ended 30 June 2018 R'm	Audited Year ended 31 December 2018 R'm
18. RELATED PARTIES			
The Group has a related party relationship with its subsidiaries, associates, joint ventures and directors.			
The Group, in the ordinary course of business, enter into various sales, purchase and services transactions with joint ventures and associates and others in which the Group has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties.			
Details of transactions and balances between the Group and related parties are disclosed below:			
Sales to related parties	**208.4**	366.6	613.4
Interest received from related parties	**3.8**	–	1.3
Receivables due from related parties	**99.0**	167.5	161.2
Payables due to related parties	**11.7**	13.8	21.2
Loans to related parties	**54.8**	7.1	33.5

The decrease in sales to and receivables due from related parties is as a result of West Coast Papers (Pty) Limited being classified as a subsidiary and therefore these transactions were eliminated in the current period. In the prior period West Coast Papers (Pty) Limited was classified as an associate and was equity accounted.

19. SUBSEQUENT EVENTS

The Board declared an ordinary dividend of 18 cents per share on 7 August 2019 payable on 9 September 2019 to shareholders registered on 6 September 2019.

The directors are not aware of any matters or circumstances arising subsequent to 30 June 2019 that require any additional disclosure or adjustment to the condensed consolidated interim financial statements.

Company information

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

Directors
Independent non-executive
AJ Phillips (Chairman), NP Dongwana, NB Langa-Royds, PCS Luthuli, M Makanjee,
TDA Ross, AM Thompson

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

Company secretary
MN Sepuru

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

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

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

Disclaimer
This document including, without limitation, those statements concerning the demand outlook, expansion projects and its capital resources and expenditure, may be considered to be forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty and although Mpact believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government action and business and operational risk management. While Mpact has taken reasonable care to ensure the accuracy of the information presented, Mpact accepts no responsibility for any consequential, indirect, special or incidental damages, whether foreseeable or unforeseeable, based on claims arising out of misrepresentation or negligence arising in connection with a forward-looking statement. This document is not intended to contain any profit forecasts or profit estimates and has not been reviewed or reported on by the auditors.

www.mpact.co.za