



mpact 
smarter, sustainable solutions

Unaudited Interim Results
for the six months ended 30 June 2022

COMMENTARY

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")

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

SALIENT FEATURES FROM CONTINUING OPERATIONS

- *Underlying operating profit increased by 21.5% to R387 million (June 2021: R319 million)*
- *Underlying earnings per share up 28% to 138.9 cents (June 2021: 108.5 cents)*
- *Return on Capital Employed (ROCE) improved to 18.0% (June 2021: 15.4%)*
- *Interim dividend declared of 40 cents per share (June 2021: nil cents per share)*

OVERVIEW

Mpact has reported improved trading for the six-months ended 30 June 2022 on the back of strong local demand for both containerboard and cartonboard as well as good growth in new product sales. Higher selling prices implemented at the end of 2021 helped to mitigate sharply escalating input costs.

Trading was mixed across the rest of the business, with good sales volume growth in the quick service restaurant (QSR), beverage and home delivery sectors, partly offset by declines in other fast-moving consumer goods (FMCG) sectors as well as fruit packaging.

Fruit packaging has been impacted by the uncertainty arising from the sanctions related to the Russia-Ukraine conflict, as fruit producers have delayed decisions on harvesting and packaging of some products until they are able to establish which markets to service and how. Their operations were impacted by a number of factors including port constraints in South Africa and adverse weather in some regions.

Macroeconomic uncertainties and persistent global supply chain constraints continued to impact business and the cost and availability of most raw materials and new capital equipment. Where possible, we increased raw material inventory to mitigate long lead times and periods of uncertainty.

Despite these external challenges, there has been meaningful progress on the implementation of our strategy. This includes a number of capital investments for future growth. Delays in the manufacturing and shipping of capital equipment for a number of projects, ordered mainly from Europe and Asia, have negatively impacted some completion dates. We have however, contained project costs to within the approved budgets, with a few exceptions related to exchange rate movements and the abovementioned delays.

In addition to these global challenges, we have successfully navigated the lingering effects of last year's unrest in KwaZulu-Natal (KZN), the recent floods in KZN, drought in the Eastern Cape, unprecedented load shedding and other municipal service interruptions countrywide.

Mpact Operations (Pty) Ltd, our main trading entity in South Africa, retained its level 1 B-BBEE rating.

FINANCIAL REVIEW

Group revenue for the six months increased by 5.2% to R5.7 billion compared to the prior period with sales volumes decreasing by 1%. The Baywhite distribution agreement with Mondi terminated at the end of December 2021, with only inventory clearing sales of Baywhite taking place during the period. Group revenue excluding Baywhite increased by 13.0% and sale volumes by 6.3%.

Underlying operating profit (EBIT) increased by 21.5% to R387.1 million (June 2021: R318.7 million) mainly attributable to strong domestic demand in the Paper business, partly offset by lower sales volumes in the Plastics business, and higher input costs.

COMMENTARY CONTINUED

Paper business

Revenue of R4.9 billion was 5.9% higher than the prior period (June 2021: R4.6 billion), with sales volumes decreasing by approximately 1% due to lower Baywhite sales. Excluding Baywhite, Paper segment revenue increased 15.3% and external sales volumes increased 7.4%.

Strong domestic containerboard demand led to a favourable sales mix variance when compared to the prior period as we reduced exports to service the domestic market.

In Paper Converting, consumer demand increased compared to the prior period, resulting in improved sales volumes in the industrial and QSR sectors. Additionally, strong growth was experienced in new product sales, albeit off a low base, as a result of sustained demand in home delivery and courier paper bags and Freshpact® punnets and trays. This was partially offset by lower sales in the fruit sector as producers delayed orders as a result of supply chain and market uncertainties arising from port constraints in South Africa and sanctions against Russia.

Underlying operating profit of R457.6 million was up 31.8% as a result of improved trading. The segmental result includes the final settlement amounts Mpact received from the insurers relating to the Springs municipal electricity supply interruption in 2020 of R47 million (June 2021: R25 million) and R5 million of direct costs relating to the floods in KZN.

Plastics business

Revenue in the Plastics business increased by 1.2% to R848.6 million. Sales volumes declined by 6.4% as a result of lower sales in Bins and Crates operations, while FMCG operations were in line with the prior period and Preform and Closures operations were up marginally.

Production of bins and crates was lower than the prior period as a result of delays in the arrival of new equipment from overseas, and in part due to operational issues, impacting sales. This equipment was required to offset the planned relocation of existing equipment between plants as part of the establishment of the new Castleview factory in Gauteng. Additionally, bin sales to the fruit sector declined for the same reasons as in Paper Converting.

FMCG operations were affected by seven days of downtime at the Pinetown factory attributable to the floods in KZN.

Underlying operating profit decreased to R3.5 million (June 2021: R40.5 million) due to lower sales volumes and the costs associated with the KZN floods of R11.6 million which are included in the current period results while the insurance claims are being finalised by the insurers.

Net finance costs

Net finance costs of R81.8 million (June 2021: R67.9 million) increased by 20.5% compared to the prior period due to higher average net debt over the period.

Earnings per share

Headline earnings per share increased 31.1% to 142.0 cents (June 2021: 108.3 cents) while basic and underlying basic earnings per share increased 28.0% to 138.9 cents (June 2021: 108.5 cents).

Net debt

Net debt increased to R2,206 million (December 2021: R1,765 million) mainly as a result of investments in capital projects and working capital cash outflows, which were both anticipated. Mpact has recently renewed its committed debt facilities at improved margins.

DISCONTINUED OPERATION

As reported in the 31 December 2021 results, the plastic trays and films business, Mpact Versapak, is anticipated to be sold as a going concern, and as such Mpact's Group results include separate disclosures in the financial statements for discontinued operations and assets and liabilities held-for-sale.

For the six-months ended 30 June 2022, Versapak reported revenue of R509.9 million (June 2021: R427.9 million), and net earnings of R27.8 million (June 2021: R18.2 million), which equates to basic earnings per share of 19.3 cents (June 2021: 12.3 cents). Versapak's net asset value as at 30 June 2022 was R337.3 million (June 2021: R201.5 million).

The Company is in discussions with potential buyers for the business.

OUTLOOK

Mpact is expected to continue to benefit from strong domestic containerboard and cartonboard demand, with all paper machines fully booked to the end of the current annual supply agreements, being end September. Current indications suggest that the supply and demand balance will remain tight for the foreseeable future. Input costs, however, have continued to escalate since the end of June 2022, putting further pressure on margins. Discussions are underway with Paper customers regarding selling price increases to be implemented in October 2022. The Felixton paper mill project, which aims to increase recycled containerboard capacity by an additional 16,000 tons per annum, is on schedule to be completed in 2023, and further paper mill projects are under consideration.

Margins in the Paper Converting business will be under pressure due to the substantial containerboard cost increases expected in the last quarter, which may not be fully recovered in selling prices. Various projects to increase Mpact's corrugated capabilities to service the growing export fruit sector, and in particular citrus, are expected to be completed by the end of 2024.

The Citrus Growers Association is still forecasting growth in citrus export volumes from South Africa for the full year of 2022 when compared to the prior period, notwithstanding a decline in the first half of the year. If this materialises, we expect to benefit in both the Paper Converting and Plastic Bins and Crates businesses.

The Plastics division will benefit from the consolidation of the two preform and closures factories in Wadeville during Q3 and an improvement in the Bins and Crates business is anticipated. The new plastic crate recycling facility in Brits and the development of the new Castleview factory are also expected to contribute more meaningfully during the second half of the year.

While we anticipate the continued negative impact from ongoing global supply chain constraints; market uncertainty arising from the Russia-Ukraine conflict and its effect on the costs of energy and food; and the current cycle of monetary policy tightening globally, Mpact will continue to invest to meet customers' requirements and extend our innovative product offering.

Importantly, several of our products are targeted at sectors which are expected to grow in the foreseeable future, and are partly shielded from South African consumer spending patterns. These include fruit exports, convenience shopping, recycling and waste management.

In the face of continued macroeconomic uncertainty, the focus of the Mpact management team remains on the value-enhancing strategy of the business aimed at optimising our portfolio and growing organically and through acquisition. This strategy has enabled the business to report stronger earnings as the company continues to innovate and evolve into new, higher margin product areas, creating tangible returns for all shareholders.

Mpact's integrated business model is uniquely focused on closing the loop in paper and packaging, positioning the Group to benefit from the ongoing drive towards a circular economy by brand owners, manufacturers and governments alike.

DIVIDENDS

The Board has resolved to declare an interim gross cash dividend of 40 cents for the six-months ended 30 June 2022 (32 cents net of dividend withholding tax) per ordinary share (June 2021: nil per ordinary share). A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt. The dividend has been declared from income reserves.

The Company's total number of issued ordinary shares at the date of this announcement is 148 175 363. Mpact's income tax reference number is 9003862175.

Salient dates for the cash dividend distribution

	2022
Publication of dividend declaration	Monday, 8 August
Last day of trade to receive a dividend	Tuesday, 30 August
Shares commence trading "ex" dividend	Wednesday, 31 August
Record date	Friday, 2 September
Payment date	Monday, 5 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 the SENS.

Share certificates may not be dematerialised or re-materialised between Wednesday, 31 August 2022 and Friday, 2 September 2022, both days inclusive.

BOARD CHANGES

Effective 2 June 2022, Ms. Ntombi Langa-Royds retired by rotation as an Independent Non-Executive Director of Mpact, Chairman of the Social and Ethics and Remuneration Committees and as member of the Nomination Committee. The Board would like to thank Ms Langa-Royds for her valuable contribution, dedication and commitment to the Company during her tenure.

Mr Sibusiso Luthuli, an Independent Non-Executive director of the Board, has been appointed as the Chairman of the Remuneration Committee effective from 2 June 2022.

Ms Maya Makanjee, an Independent Non-Executive director of the Board, has been appointed as the Chairman of the Social and Ethics Committee effective from 2 June 2022.

AJ Phillips
Chairman

BW Strong
Chief Executive Officer

8 August 2022

CONDENSED CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Note	Unaudited Six months ended 30 June 2022 R'm	Restated' Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
CONTINUING OPERATIONS				
Revenue from contracts with customers	4	5,743.4	5,459.0	11,548.8
Material, energy and fixed overhead recovery		(3,165.1)	(3,065.1)	(6,397.9)
Variable selling expenses		(450.4)	(445.0)	(887.8)
Administration and other operating expenses		(1,489.8)	(1,372.9)	(2,831.8)
Depreciation, amortisation and impairment		(251.0)	(257.3)	(500.2)
Operating profit	5	387.1	318.7	931.1
Share of profit from equity accounted investees		5.6	0.8	7.1
Gain on acquisition of a business	7	–	–	0.9
Profit from operations and equity accounted investees		392.7	319.5	939.1
Net finance costs		(81.8)	(67.9)	(139.5)
Investment income		3.7	4.0	8.0
Finance costs	8	(85.5)	(71.9)	(147.5)
Profit before taxation and discontinued operation		310.9	251.6	799.6
Taxation	6	(96.6)	(75.3)	(228.1)
Profit for the period from continuing operations		214.3	176.3	571.5
DISCONTINUED OPERATION				
Profit for the period from discontinued operation	13	28.0	18.2	2.2
Profit for the period from total operations		242.3	194.5	573.7
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss				
Actuarial gains on post-retirement benefit schemes		–	–	3.0
Tax effect		–	–	(0.8)
Items that may be reclassified subsequently to profit or loss				
Effect of cash flow hedges		17.3	26.1	37.8
Tax effect		(4.8)	(7.3)	(10.6)
Exchange differences on translation of foreign operations		–	–	0.2
Other comprehensive income for the period net of tax		12.5	18.8	29.6
Total comprehensive income for the period		254.8	213.3	603.3
Profit attributable to:				
Equity holders of Mpact		229.8	180.0	519.9
Non-controlling interests		12.5	14.5	53.8
Profit for the period		242.3	194.5	573.7
Total comprehensive income attributable to:				
Equity holders of Mpact		242.3	198.8	549.5
Non-controlling interests		12.5	14.5	53.8
Total comprehensive income for the period		254.8	213.3	603.3
Earnings per share (EPS) for profit attributable to equity holders of Mpact				
	9			
Basic EPS (cps) from continuing operations		138.9	108.5	351.5
Diluted EPS (cps) from continuing operations		135.4	107.0	343.7
Basic EPS (cps) from discontinued operation		19.3	12.3	1.5
Diluted EPS (cps) from discontinued operation		18.8	12.0	1.5

¹ The comparative figures were restated as a result of the Plastics Trays & Films business being classified as a discontinued operation.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

	Note	Unaudited as at 30 June 2022 R'm	Unaudited as at 30 June 2021 ¹ R'm	Audited as at 31 December 2021 R'm
ASSETS				
Goodwill and other intangible assets		543.9	550.2	549.9
Property, plant and equipment		3,503.8	2,941.1	3,131.8
Right of use assets		182.2	244.6	198.0
Investments in equity accounted investees		52.6	40.6	46.4
Financial assets		79.5	81.6	85.5
Finance lease receivable		–	3.8	–
Deferred tax assets		13.4	14.4	10.3
Non-current assets		4,375.4	3,876.3	4,021.9
Inventories		1,748.0	1,679.8	1,463.4
Trade and other receivables		2,509.3	2,451.0	2,330.0
Financial assets		11.0	13.4	13.9
Cash and cash equivalents		202.5	538.1	374.3
Derivative financial instruments		1.2	0.6	3.3
Current tax receivable		14.7	19.2	18.2
Current assets		4,486.7	4,702.1	4,203.1
Assets held for sale	13	502.4	–	496.9
Total assets		9,364.5	8,578.4	8,721.9
EQUITY AND LIABILITIES				
Capital and reserves				
Stated capital	10	2,323.6	2,323.6	2,323.6
Retained earnings		1,722.0	1,227.1	1,567.0
Reserves		–	20.9	19.5
Total attributable to equity holders of Mpac		4,045.6	3,571.6	3,910.1
Non-controlling interests in subsidiaries		332.4	291.4	329.5
Total equity		4,378.0	3,863.0	4,239.6
Interest and non-interest-bearing borrowings	11	1,800.7	1,673.1	1,651.5
Lease liabilities		167.7	250.1	179.6
Retirement benefits obligation		35.0	37.2	34.6
Deferred tax liabilities		219.9	149.6	217.1
Deferred income		0.7	5.1	0.3
Provisions		5.8	6.9	6.9
Derivative financial instruments		1.1	31.0	15.9
Non-current liabilities		2,230.9	2,153.0	2,105.9
Short-term portion of borrowings	11	377.9	27.0	231.4
Lease liabilities		62.0	52.8	67.6
Trade and other payables		2,113.7	2,442.4	1,845.7
Provisions		14.0	20.1	16.4
Deferred income		3.6	4.6	6.6
Derivative financial instruments		6.8	11.9	6.5
Current tax liabilities		12.5	3.6	6.2
Current liabilities		2,590.5	2,562.4	2,180.4
Liabilities held for sale	13	165.1	–	196.0
Total liabilities		4,986.5	4,715.4	4,482.3
Total equity and liabilities		9,364.5	8,578.4	8,721.9

¹ Includes the Plastics Trays & Films business.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	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 Impact Limited R'm	Non- controlling interest R'm	Total equity R'm
Balance at 31 December 2020 (audited)	2,595.6	43.2	(41.2)	30.2	(45.8)	1,045.9	3,627.9	284.9	3,912.8
Total comprehensive income for the period	-	-	18.8	-	-	180.0	198.8	14.5	213.3
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	(8.0)	(8.0)
Purchase of treasury shares	(257.9)	-	-	-	(12.2)	-	(12.2)	-	(12.2)
Shares re-purchased	(14.1)	-	-	-	-	-	(257.9)	-	(257.9)
Shares cancelled ²	-	-	-	-	14.1	-	-	-	-
Share plan charges for the period	-	15.4	-	-	-	-	15.4	-	15.4
Issue/exercise of shares under employee share scheme	-	(20.4)	-	-	18.8	1.2	(0.4)	-	(0.4)
Balance at 30 June 2021 (unaudited)	2,323.6	38.2	(22.4)	30.2	(25.1)	1,227.1	3,571.6	291.4	3,863.0
Total comprehensive income for the period	-	-	8.4	2.2	0.2	339.9	350.7	39.3	390.0
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	(1.2)	(1.2)
Purchase of treasury shares	-	-	-	-	(31.6)	-	(31.6)	-	(31.6)
Share plan charges for the period	-	19.4	-	-	-	-	19.4	-	19.4
Balance at 31 December 2021 (audited)	2,323.6	57.6	(14.0)	32.4	(56.5)	1,567.0	3,910.1	329.5	4,239.6
Total comprehensive income for the period	-	-	12.5	-	-	229.8	242.3	12.5	254.8
Dividends paid ³	-	-	-	-	-	(74.1)	(74.1)	-	(74.1)
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	(9.6)	(9.6)
Purchase of treasury shares	-	-	-	-	(49.7)	-	(49.7)	-	(49.7)
Share plan charges for the period	-	16.8	-	-	-	-	16.8	-	16.8
Issue/exercise of shares under employee share scheme	-	(29.9)	-	-	30.8	(0.7)	0.2	-	0.2
Balance at 30 June 2022 (unaudited)	2,323.6	44.5	(1.5)	32.4	(75.4)	1,722.0	4,045.6	332.4	4,378.0

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

² These shares were purchased in December 2020 and cancelled in January 2021.

³ The dividend per share paid to equity holders of Impact Limited was 50c per share.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Note	Unaudited Six months ended 30 June 2022 R'm	Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
Cash flows from operating activities				
Operating cash flows before movements in working capital		688.3	603.0	1,430.8
Net increase in working capital		(207.9)	(11.0)	(461.7)
Cash generated from operations				
Dividends from equity accounted investees	17	480.4	592.0	969.1
Taxation paid		–	8.3	8.8
		(91.7)	(31.2)	(114.5)
Net cash inflows from operating activities				
		388.7	569.1	863.4
Cash flows from investing activities				
Additions to property, plant and equipment and intangible assets		(594.6)	(249.5)	(687.1)
Other investing activities		13.6	14.5	4.5
Net cash outflows from investing activities				
		(581.0)	(235.0)	(682.6)
Cash flows from financing activities				
Repayment of borrowings		(1,352.8)	(517.9)	(2,402.7)
Proceeds from borrowings raised		1,650.0	525.0	2,615.0
Repayment of lease liabilities ¹		(39.4)	(35.4)	(72.9)
Finance costs paid ²		(84.1)	(69.9)	(143.5)
Payment for shares re-purchased and cancelled		–	(257.9)	(257.9)
Purchase of treasury shares		(49.7)	(12.2)	(43.8)
Dividends paid to Mpac shareholders		(74.1)	–	–
Other financing activities		(9.7)	(8.0)	(9.2)
Net cash inflows/(outflows) from financing activities				
		40.2	(376.3)	(315.0)
Net decrease in cash and cash equivalents		(152.1)	(42.2)	(134.2)
Effect of movements in exchange rates on cash held		–	–	0.4
Net cash and cash equivalents at beginning of period		434.5	568.3	568.3
Net cash and cash equivalents at end of period³				
		282.4	526.1	434.5

¹ The total cash outflow for leases recognised under IFRS 16 is R48.9 million (30 June 2021: R48.4 million, 31 December 2021: R97.8 million).

² Finance costs paid includes R9.5 million (30 June 2021: R13.0 million, 31 December 2021: R24.9 million) from lease liabilities.

³ Net cash and equivalents comprise of cash and cash equivalents of R202.5 million (30 June 2021: R538.1 million, 31 December 2021: R374.3 million), cash and cash equivalents per assets held for sale of R98.0 million (30 June 2021: Rnil million, 31 December 2021: R79.9 million) and bank overdrafts of R18.1 million (30 June 2021: R12.0 million, 31 December 2021: R19.7 million).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 Mpack's functional currency and 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 2021.

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

The presentation of headline EPS is mandated under the JSE Listings Requirements and is calculated in accordance with Circular 1/2021, "Headline Earnings", as issued by the South African Institute of Chartered Accountants.

The preparation of Mpack's consolidated results for the half year ended 30 June 2022 was supervised by the Chief Financial Officer, BDV Clark CA(SA). The interim condensed consolidated financial statements have not been audited or reviewed by Mpack's external auditor.

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 2021.

The following amendments were adopted in the current period:

IFRS 3: Reference to the Conceptual Framework

IAS 16: Property, Plant and Equipment: Proceeds before Intended Use

IAS 37: Onerous Contracts – Costs of Fulfilling a Contract

These amendments had no impact on the condensed consolidated interim financial statements on adoption.

Significant accounting judgements, estimates and assumptions

The significant judgements made by management in applying Mpack'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 2021.

Special items to determine underlying operating profit

Special items are those items of financial performance that are separately disclosed to assist in the understanding of the underlying financial performance achieved. Such items are material by nature or amount to the financial year's results. These items include impairment charges on tangible and intangible assets, impairment related to equity accounted investees, impairment to financial asset investments and impairment of foreign cash balances or reversals of any such items. Restructure costs associated with the closure of a plant, where such cost would typically be included in earnings before interest, tax, depreciation and amortisation (EBITDA), will also be included in special items.

3. SEASONALITY

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

4. SEGMENT INFORMATION

Mpack's operating segments are reported in a manner consistent with the internal reporting provided to Mpack's executive committee, being the chief operating decision-making body. Mpack 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 Mpack's accounting policies. All goods sold to customers occur at a point in time.

	Unaudited Six months ended 30 June 2022 R'm	Restated ¹ Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
Mpact's segment analysis			
Revenue			
Paper	4,914.9	4,638.9	9,724.9
Plastics	848.6	838.6	1,861.0
Revenue before inter-segment revenue	5,763.5	5,477.5	11,585.9
Less: Inter-segment revenue	(20.1)	(18.5)	(37.1)
Total	5,743.4	5,459.0	11,548.8
External revenue by product type			
Recycled containerboard, cartonboard and other materials	2,374.9	2,321.5	4,803.7
Corrugated packaging, bags and sacks	2,519.9	2,298.9	4,884.3
Plastic packaging solutions	848.6	838.6	1,860.8
Total	5,743.4	5,459.0	11,548.8
External revenue by location of customer			
South Africa (country of domicile)	5,094.7	4,762.8	10,133.3
Rest of Africa	579.4	632.6	1,297.0
Rest of World	69.3	63.6	118.5
Total	5,743.4	5,459.0	11,548.8
Operating segment underlying operating profit/(loss)			
Paper	457.6	347.1	875.0
Plastics	3.5	40.5	199.5
Corporate	(38.8)	(36.5)	(72.0)
Inter-segment elimination	(35.2)	(32.4)	(55.0)
Operating profit before special items (underlying EBIT)	387.1	318.7	947.5
Special items ²	–	–	(16.4)
Share of equity accounted investee's profit	5.6	0.8	7.1
Gain on acquisition of subsidiary	–	–	0.9
Net finance costs	(81.8)	(67.9)	(139.5)
Profit before tax and discontinued operation	310.9	251.6	799.6
Assets			
Paper	5,907.8	5,375.7	5,368.6
Plastics	1,564.1	1,636.8	1,416.8
Corporate ³	1,892.6	1,565.9	1,936.5
Total assets	9,364.5	8,578.4	8,721.9

¹ The comparative figures were restated as a result of the Plastics Trays & Films business being classified as a discontinued operation.

² Consist of impairment on plant and equipment of R1.2 million and restructuring costs of R15.2 million.

³ Includes intangible and other non-operating assets.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Unaudited Six months ended 30 June 2022 R'm	Restated ¹ Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
5. OPERATING PROFIT			
Included in operating profit are:			
Depreciation, amortisation and impairments	251.0	257.3	500.2
Amortisation of intangible assets	6.1	6.1	12.1
Depreciation of property, plant and equipment	207.2	212.5	409.7
Depreciation of right of use assets	37.7	38.7	77.2
Impairment of plant and equipment	–	–	1.2
Net foreign currency losses/(gain)	3.0	14.3	(9.8)
Increase in expected credit loss provision	8.1	3.8	13.1
Increase/(decrease) in provision for net write-down of inventories ²	5.0	(10.8)	(14.0)
Net proceeds from insurance claim ³	46.7	25.0	25.0

¹ The comparative figures were restated as a result of the Plastics Trays & Films business being classified as a discontinued operation.

² The amount includes provisions raised during the period less reversals of prior period provisions. The inventories are disclosed net of provisions in the statement of financial position.

³ A final settlement of R46.7 million (30 June 2021 and 31 December 2021: R25 million) received by Mpact from the insurers relating to the Springs Municipal electricity supply interruption in 2020.

6. TAXATION

Profit before tax from continuing operations	310.9	251.6	799.6
Profit from discontinued operation	28.0	18.2	2.2
Less share of profit of equity accounted investees	(5.6)	(0.8)	(7.1)
Profit before tax, adjusted for equity accounted profit and discontinued operation	333.3	269.0	794.7
Taxation	96.6	75.3	228.1
Effective tax rate	29.0%	28.0%	28.7%

On 23 February 2022, the Minister of Finance announced that the Corporate Income Tax rate would reduce from 28% to 27%, the impact of which will affect the realisation of deferred tax balances at year end.

7. BUSINESS COMBINATION

2022

There were no business combinations in the current financial period.

2021

In terms of an agreement, on 2 November 2021 (acquisition date), Mpact acquired collection, sorting and baling businesses located in Epping and Pretoria following the fulfilment of all the conditions precedent. The Pretoria branch was merged with the Group's existing site.

The primary reason for the acquisition was to increase Mpact Recycling's paper collections and expand its footprint in the relevant geographic areas. 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:

	R'm
Assets at fair value	42.2
Liabilities at fair value	(18.6)
Total identifiable net assets at fair value	23.6
Bargain purchase on acquisition	(0.9)
Purchase consideration transferred in cash	22.7

	Unaudited Six months ended 30 June 2022 R'm	Restated ¹ Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
8. FINANCE COSTS			
Bank overdrafts and loans	74.2	57.1	119.0
Leases liabilities	9.5	13.0	24.9
Defined benefit arrangements	1.8	1.8	3.6
Total	85.5	71.9	147.5

¹ The comparative figures were restated as a result of the Plastics Trays & Films business being classified as a discontinued operation.

	Cents	Cents	Cents
9. EARNINGS PER SHARE			
Continuing operations earnings per share (EPS)			
Basic EPS	138.9	108.5	351.5
Diluted EPS	135.4	107.0	343.7
Basic headline EPS	142.0	108.3	343.2
Diluted headline EPS	138.5	106.7	335.5
Basic underlying EPS	138.9	108.5	359.6
Diluted underlying EPS	135.4	107.0	351.5
Discontinued operations earnings per share (EPS)			
Basic EPS	19.3	12.3	1.5
Diluted EPS	18.8	12.0	1.5
Basic headline EPS	19.3	12.2	0.3
Diluted headline EPS	18.8	12.1	0.3
Total operations earnings per share (EPS)			
Basic EPS	158.2	120.8	353.0
Diluted EPS	154.2	119.0	345.2
Basic headline EPS	161.3	120.5	343.5
Diluted headline EPS	157.3	118.8	335.8
	R'm	R'm	R'm
Continuing operations			
Profit for the period	214.3	176.3	571.5
Less profit attributable to non-controlling interest	(12.5)	(14.5)	(53.8)
Profit for the period attributable to equity holders of Mpact	201.8	161.8	517.7
Discontinued operation			
Profit for the period	28.0	18.2	2.2
Profit for the period attributable to equity holders of Mpact	28.0	18.2	2.2

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Unaudited Six months ended 30 June 2022 R'm	Restated ¹ Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
9. EARNINGS PER SHARE (CONTINUED)			
Continuing operations			
Profit for the period attributable to equity holders of Mpact	201.8	161.8	517.7
Impairment of plant and equipment	–	–	1.2
Gain on acquisition of business	–	–	(0.9)
Gain on de-recognition of right-of-use assets and lease liabilities	–	–	(10.0)
Loss/(profit) on disposal of tangible assets	0.1	(0.5)	(3.2)
Write off of tangible assets	6.3	–	–
Related tax	(1.8)	0.1	0.6
Headline earnings for the period	206.4	161.4	505.4
Profit for the period attributable to equity holders of Mpact	201.8	161.8	517.7
Impairment of plant and equipment	–	–	1.2
Restructure costs	–	–	15.2
Related tax	–	–	(4.6)
Underlying earnings for the period	201.8	161.8	529.5
Discontinued operation			
Profit for the financial period attributable to equity holders of Mpact	28.0	18.2	2.2
Profit on disposal of tangible assets	–	–	(1.8)
Headline earnings for the financial period	28.0	18.2	0.4
	Weighted average number of shares		
Basic number of shares outstanding	145,332,197	149,064,418	147,264,489
Effect of dilutive potential ordinary shares	3,699,927	2,157,948	3,363,796
Diluted number of ordinary shares outstanding²	149,032,124	151,222,366	150,628,285
¹ The comparative figures were restated as a result of the Plastics Trays & Films business being classified as a discontinued operation.			
² 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.			
	Unaudited Six months ended 30 June 2022 R'm	Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
10. STATED CAPITAL			
Authorised			
217,500,000 shares of no par value	–	–	–
Issued			
148,175,363 shares (30 June 2021: 148,175,363; 31 December 2021: 148,175,363) of no par value	2,323.6	2,323.6	2,323.6

	Unaudited Six months ended 30 June 2022	Unaudited Six months ended 30 June 2021	Audited Year ended 31 December 2021
11. INTEREST AND NON-INTEREST-BEARING BORROWINGS			
– Secured interest bearing borrowings ¹	1,800.0	1,670.0	1,650.0
– Instalment loan facility	0.7	3.1	1.5
Non-current borrowings	1,800.7	1,673.1	1,651.5
– Secured interest bearing borrowings ¹	350.0	–	200.0
– Unsecured non-interest-bearing borrowings	8.6	12.2	9.0
– Instalment loan facility	1.2	2.8	2.7
– Bank overdraft	18.1	12.0	19.7
Short-term portion of borrowings	377.9	27.0	231.4
Total borrowings	2,178.6	1,700.1	1,882.9
Total borrowings increase mainly due to investments in capital projects and working capital cash outflows.			
The current portion of borrowings is expected to be repaid from operational cash flows and other borrowings.			
¹ Mpact has pledged certain items of property, plant and equipment, inventories, cash and cash equivalents and trade receivables as collateral against certain borrowings. Certain inter-company loans have been subordinated in favour of the debt holders.			
12. CAPITAL COMMITMENTS			
– Contracted capital commitments	739.0	339.3	560.4
– Approved capital commitments	426.7	322.2	954.7
Capital commitments	1,165.7	661.5	1,515.1

Commitments of R959.9 million (30 June 2021: R587.0 million; 31 December 2021: R1,383.7 million) will be spent in the next 12 months on condition of available cash resources. The balance of R205.8 million (30 June 2021: R74.5 million; 31 December 2021: R131.4 million) will be spent in one to five years. These commitments will be met from existing cash resources and borrowing facilities available to Mpact.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

FOR THE SIX MONTHS ENDED 30 JUNE 2022

13. DISCONTINUED OPERATION

Plastics Trays & Films

At 31 December 2021, Versapak was classified as a disposal group held for sale and as a discontinued operation. Following a strategic review, Mpack's Board had decided to sell its Plastic Trays & Films business, Mpack Versapak, as a going concern. Versapak currently forms part of the Plastics Division of Mpack Operations Proprietary Limited.

Versapak is a leading producer of plastic trays and film with a well-established brand, blue-chip customers and a solid asset base. The reason for the decision is that Versapak's products are not fully aligned with Mpack's strategy.

Mpack has received offers from potential buyers which are currently being considered.

The results for the period are presented below:

	Unaudited Six months ended 30 June 2022 R'm	Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
Revenue from contracts with customers	509.9	427.9	920.3
Expenses	(482.1)	(409.7)	(918.1)
Operating profit	27.8	18.2	2.2
Net finance income	0.2	-	-
Profit for the period from discontinued operation¹	28.0	18.2	2.2
<i>¹ Profit for the period is after eliminating intercompany transactions where they were recognised without further adjustment.</i>			
The major classes of assets and liabilities of Trays & Films that were de-recognised are as follows:			
Assets			
Property, plant and equipment	39.3	-	30.6
Inventories	165.4	-	140.6
Trade and other receivables	198.7	-	245.1
Current financial assets	1.0	-	0.7
Cash and cash equivalents	98.0	-	79.9
Assets held for sale	502.4	-	496.9
Liabilities			
Trade and other payables	165.1	-	196.0
Liabilities held for sale	165.1	-	196.0
The net cash flows are as follows:			
Operating activities	8.4	31.2	(32.0)
Investing activities	(8.3)	(4.9)	(17.2)
Financing activities	-	-	-
Net cash inflow/(outflow)	0.1	26.3	(49.2)

14. 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 available and rely as little as possible on Mpac's specific estimates.

The significant inputs required to fair value all of Mpac'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.

	Unaudited Six months ended 30 June 2022 R'm	Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
Financial instruments by category			
Financial assets			
Trade receivables ¹ (At amortised cost)	2,485.8	2,394.0	2,289.0
Loan receivables (Level 2 – At amortised cost)	89.9	94.4	98.8
Equity investments (Level 3 – At fair value through OCI)	0.6	0.6	0.6
Derivative financial instruments (Level 2 – At fair value through profit or loss)	1.2	0.6	3.3
Cash and cash equivalents ¹ (At amortised cost)	202.5	538.1	374.3
Asset held for sale (Level 2 – At fair value through profit or loss)	1.0	–	0.7
Asset held for sale ¹ (At amortised cost)	284.8	–	276.7
Total	3,065.8	3,027.7	3,043.4
Financial liabilities			
Borrowings (Level 2 – At amortised cost)	2,178.6	1,700.1	1,882.9
Lease liabilities (Level 2 - At amortised cost)	229.7	302.9	247.2
Trade payables ¹ (At amortised cost)	2,113.7	2,442.4	1,845.7
Derivative financial instrument (Level 2 – At fair value through profit or loss)	7.9	42.9	22.4
Liabilities held for sale ¹ (At amortised cost)	165.1	–	196.0
Total	4,529.9	4,488.3	3,998.2
¹ The carrying value approximates the fair value.			
15. NET ASSET PER SHARE			
Net asset value per share (cents)	2,730.3	2,410.4	2,638.8

Net asset value per share is defined as net assets attributable to equity holders of Mpac 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 2022

16. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- Contingent liabilities for Mpac comprise aggregate amounts at 30 June 2022 of R31.7 million (30 June 2021: R11.7 million, 31 December 2021: R32.3 million) in respect of loans and guarantees given to banks and other third parties.
- As advised to shareholders on 26 May 2016, the Company is subject to a Competition Commission investigation. On 15 April 2019 the Competition Commission referred a complaint to the Competition Tribunal which will be adjudicated in due course. The commission is not seeking the imposition of a penalty against Mpac.

	Unaudited Six months ended 30 June 2022 R'm	Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
17. CASH GENERATED FROM OPERATIONS			
The notes to the condensed consolidated interim statement of cash flows include cash flows for discontinued operations. This differs to the notes to the condensed consolidated interim statement of profit or loss which excludes amounts for the discontinued operations.			
Profit before tax from total operations	338.9	269.8	801.8
Profit before taxation from continuing operations	310.9	251.6	799.6
Profit from discontinued operation	28.0	18.2	2.2
Depreciation, amortisation and impairments	251.0	258.0	501.0
Gain on acquisition of subsidiary	–	–	(0.9)
Share-based payments	16.8	15.4	34.8
Net finance costs	81.6	67.9	139.5
Share of profit from equity accounted investees	(5.6)	(0.8)	(7.1)
Decrease in finance lease asset	2.0	–	3.7
Decrease in provisions	(4.9)	(3.0)	(8.1)
Increase in inventories	(310.3)	(278.9)	(200.7)
Increase in receivables	(135.1)	(286.5)	(408.8)
Increase in payables	237.5	554.3	147.8
Loss/(profit) on disposal of tangible assets	0.1	(0.5)	(5.0)
Write off of tangible assets	6.3	–	–
Fair value change on transactions not qualifying as hedges	4.7	(1.0)	(13.2)
Amortisation of government grant	(2.6)	(2.8)	(5.5)
Profit on disposal of right-of-use assets and lease liabilities	–	–	(10.0)
Other non-cash items	–	0.1	(0.2)
Cash generated from operations	480.4	592.0	969.1

18. RELATED PARTIES

Mpact has a related party relationship with its associates and joint ventures. Mpact, in the ordinary course of business, enters into various sales, purchase and services transactions with joint ventures and associates and others in which Mpact has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties.

	Unaudited Six months ended 30 June 2022 R'm	Unaudited Six months ended 30 June 2021 R'm	Audited Year ended 31 December 2021 R'm
Details of transactions and balances between Mpact and related parties are disclosed below:			
Sales to related parties	142.3	123.2	306.7
Purchases from related parties	0.1	0.7	0.7
Interest received from related parties	0.1	0.6	0.8
Receivables due from related parties	44.7	45.2	65.7
Payables due to related parties	10.2	9.2	12.1
Loans to related parties	53.2	61.8	65.0

19. GOING CONCERN

As part of the directors' consideration of the appropriateness of adopting the going concern basis in preparing the condensed consolidated interim financial statements for the period ended 30 June 2022, liquidity and solvency tests were performed based on Mpact's budgets for the next twelve months.

Mpact's net debt as at 30 June 2022 was approximately R2.2 billion (30 June 2021: R1.5 billion, 31 December 2021: R1.8 billion).

Mpact is subject to two financial covenant conditions, namely the Interest Cover ratio, defined as EBITDA divided by Total Net interest; and the Net debt to EBITDA ratio, defined as Net debt, excluding finance liabilities divided by EBITDA.

	Threshold	at 30 June 2022
Interest Cover ratio	greater than or equal to 3.5 times	10.0 times
Net debt to EBITDA	less than or equal to 3.0 times	1.3 times

Mpact has met these covenants with sufficient headroom and therefore minimal risk exists for any breach of triggers.

The floods in KZN had impacted certain of the operations. Costs related to the damages are estimated at approximately R16 million and are included in the current period while the insurance claims are being finalised by insurers.

The directors consider it appropriate that the condensed consolidated interim financial statements are prepared on a going concern basis.

20. SUBSEQUENT EVENTS

The Board declared an ordinary dividend of 40 cents per share on 8 August 2022 payable on 5 September 2022 to shareholders registered on 2 September 2022.

Mpact has concluded the refinancing of R2.6 billion of its long-term bank facilities.

The directors are not aware of any other matters or circumstances arising subsequent to 30 June 2022 that require any additional disclosure or adjustment to the condensed consolidated interim financial statements.

COMPANY PROFILE

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

As at 30 June 2022, Mpact employed 5,106 people (June 2021: 5,153 people) and had 45 operating sites, 22 of which are manufacturing operations, located in South Africa, Namibia and Mozambique. Sales in South Africa account for approximately 89% of Mpact's total revenue for the current period while the balance was predominantly to customers in the rest of Africa.

DIRECTORS

Independent Non-Executive:

AJ Phillips (Chairman), NP Dongwana, PCS Luthuli, M Makanjee, TDA Ross and DG Wilson

Executive:

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

Company secretary:

DM Dickson

Registered office:

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Transfer secretaries:

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Rosebank Towers, 15 Bierman Avenue, Rosebank, 2196
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Sponsors:

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Auditors:

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