Chairman's Statement

Mpact has demonstrated, through its results, that growth can be achieved through delivering "smarter, sustainable solutions".

Dear Stakeholder,

Looking back on the year ended 31 December 2013, I am pleased to present this Integrated Report to discuss the results and reflect on developments in Mpact's businesses and the industries in which it operates. I have also endeavoured to look at what the Group is anticipating in the next financial year in terms of market conditions and potential opportunities.

This Integrated Report also addresses governance and sustainability issues relevant to the Group. The Board is satisfied that Mpact continues to improve and enhance its reporting by implementing King III, the JSE Listings Requirements, the Companies Act as well as other guidelines on Corporate Governance. This statement is endorsed by the fact that Mpact has been included in the JSE's 2013 SRI Index in less than three years after being listed.

The year in review

Mpact is to be commended on its 2013 financial results given the market conditions, both locally and internationally. Challenging conditions were compounded by above-inflation cost increases in raw materials, transport, energy and labour costs in South Africa and by the cost of exchange rate linked raw materials, especially commodities such as pulp and plastic polymers. The continued increase in local plastic polymer prices also contributed to the margin pressure being experienced by the plastic packaging sector.

The relative competitiveness of the product manufacturing market, as a consequence of the weaker rand, is a matter we take cognisance of. The extent to which the rand will further weaken against all major currencies is of concern on the broader South African economy over the long term.

The Group achieved healthy growth in certain sectors. An example of such is the export fruit market. Fruit producers had a good year as a result of good yields and the weak rand and were relatively unaffected by the European Union citrus black spot ban. Only at the end of September 2013 did the South African citrus exporters themselves call an early end to the season, after the European Union intercepted ten consignments of affected oranges.

The positive impact of the increasing awareness amongst South Africans to recycle will no doubt present opportunities for Mpact's Recycling business, an important part of the Group's integrated value chain. Mpact Recycling provides the Paper Manufacturing business with the majority of its fibre requirements, which buffers Mpact to some extent from the commodity price fluctuations mentioned above and provides a degree of control over raw material input costs.

The Group has highly effective R&D centres, where new and improved paper and plastics packaging products are researched, designed and developed to ensure that the Group remains a leader in its field and to provide customers with packaging designed specifically with their needs in mind. The focus is also on developing sustainable packaging as this becomes an increasingly sought-after requirement. This enables Mpact to respond to changing trends in consumer spend and demographics, which are creating new demands on packaged foods and goods producers, in turn increasing the demand for innovative packaging solutions.

Capital spend

Capital is the life blood of Mpact. The results achieved by the Group point towards Mpact consistently delivering smarter, sustainable solutions by improving the quality of its product designs, enhancing production efficiencies by rebuilding or replacing machinery in the mills and manufacturing plants, and employing experienced people who are passionate about the business. The aim of refurbishing and upgrading Mpact's plant and machinery is to ensure that world-class standards are maintained, including those relating to environmental impact. To achieve this, capital spend for the year ended 31 December 2013 was R387 million, which equates to 109% of depreciation and amortisation. Mpact's cash flow from operations was sufficient to fund this capital outlay.

Corporate governance and social investment

Mpact strives to be a responsible corporate citizen which adheres to and applies good corporate governance principles. The Board is satisfied that sufficient controls and measures are in place for managing the Group responsibly and effectively. The Corporate Governance Report is on pages 32 to 40 of this Integrated Report.

We are also cognisant of the impact the Group's operations could have on the environment as well as the role Mpact plays in uplifting the communities in which it operates. During 2013, Mpact participated in various Corporate Social Investment initiatives which are reported on in detail in the Sustainability Review available on Mpact's website.

Prospects

While we are expecting macro-economic conditions to remain sluggish in 2014 and the marketplace becoming ever more competitive as a result of new local packaging entrants, Mpact realises that to counter these negative factors and turn challenges into opportunities, it has to find smarter, sustainable solutions.

We continue to investigate new business opportunities, organically and through potential acquisitions. The Board and Mpact management apply stringent criteria when considering where to invest the Group's capital in order to grow and produce acceptable returns on capital employed.

Appreciation

Despite the many challenges this year – and the equally exciting opportunities they brought – I have continued to witness exemplary leadership by and commitment from Bruce Strong and his team. I want to extend, on behalf of the Board, our appreciation and thanks to all the capable management teams and Mpact employees for contributing to the success and prosperity of the Group.

Thank you my fellow Board members for your guidance and input during the year; your contributions are always valued.

Tony Phillips
Chairman

4 March 2014

Chief Executive Officer's Report

Introduction

The Group's solid operating performance and strategy of developing its leading market positions, having a customer-focused operating structure and a clear focus on performance culminated in the good results delivered by Mpact for the year ended 31 December 2013.

The year has not been without its challenges with subdued economic growth rates, the weak South African currency, industrial action across many sectors, escalating raw material costs, and a highly competitive trading environment. However, the Group was able to rely on its diverse product offering and other levers within the business to ensure growth in profit, volume and ROCE despite the challenges.

Strong growth in the fruit sector translated to growth in packaging and bulk bins, which was partially offset by subdued growth in the broader economy. The benefits derived from the weaker rand in the Paper business were partially offset in the Plastics business, where polymer price increases reflected the levels of currency depreciation.

The weaker rand improved our export competitiveness as well as the relative competitive position of the Group's manufactured products compared to imported substitutes.

While there was some selling price recovery in the last quarter of the financial year in both the Paper and Plastics businesses, polymer increases in the Plastics business remained materially under-recovered at year end.

In September 2013 the Group acquired a 51% interest in Detpak South Africa, a niche manufacturer of paper and board packaging for the Quick Service Restaurant sector. This acquisition provides Mpact the opportunity to expand its paper converting business servicing both domestic and export markets. Mpact also bought out the remaining interest in Versapak in April and acquired the PET tray business of Marco Plastics, a rigid plastics packaging company producing PET trays based in Gauteng, in February.

Financial overview

Revenue of R7.7 billion was 12.9% higher than the comparable prior year period, attributable mainly to volume growth in the Plastics business and higher average selling prices. External sales volume growth of 4.0% was achieved during the year.

Underlying operating profit increased by 12.0% to R654.8 million. The under-recovery of raw material price increases led to the operating profit margin decreasing to 8.5% from 8.6% in the comparable prior year period. ROCE for the year improved to 17.3% (2012: 16.0%).

For the year ended 31 December 2013, special items amounted to R2.4 million in respect of impairment of assets.

Net finance costs of R114.2 million were lower than the comparable prior year by 10.6% due to lower average net debt and lower average interest rates during the year.

The effective tax rate of 27.4% is lower than the prior year of 30.0% due to the repayment in 2012 of a loan on which the interest was not tax deductible. Tax payments of R122 million were made during the year (2012: R38 million), primarily due to the company's assessed loss being fully utilised during the course of the current year.

Underlying earnings per share increased by 22.2%, versus the comparable prior year period from 191.1 cents to 233.5 cents per share, while basic and headline earnings per ordinary share for the year were 232.5 cents (2012: 188.5 cents) and 233.3 cents (2012: 187.5 cents) respectively.

Net debt at 31 December 2013 was R1,116 million, an increase of R60 million from the prior year after capital expenditure of R387 million and acquisitions of R84 million. Average net debt was 3.3% lower than the comparable prior year.

The Board declared a final gross cash dividend of 58 cents per ordinary share payable on Monday, 12 May 2014, which brings the total gross cash dividend attributable to the 2013 financial year to 80 cents per ordinary share.

Operational review

In the Paper business revenue for the year was up 10.5% to R5,574.0 million with external sales volume growth of 3.2%. Higher average selling prices are attributable to increases implemented during the last quarter of 2012 to cover input cost escalation, as well as good sales volume growth in higher value products such as whitetop liner and fruit boxes, yielding a favourable product mix variance.

Underlying operating profit increased by 13.0% to R635.3 million while the operating profit margin increased to 11.4% (2012: 11.2%) primarily as a result of stringent cost control and a favourable product mix.

In the Plastics business revenue increased by 19.4% to R2,123.8 million, mainly due to volume growth of 10.7%. The preform and closure business benefited from good growth in the beverage sector while growth in the agricultural sector benefited the styrene and bulk bin businesses. Average selling price increases achieved during the year were insufficient to fully offset polymer price increases of more than 20%. Consequently, underlying operating profit declined by 9.3% to R105.8 million (2012: R116.7 million) and the underlying operating profit margin decreased to 5.0% (2012: 6.6%).

The operational review of the Paper and Plastics businesses is set out in detail on pages 26 to 31 of this Integrated Report.

Management changes

During 2013, Ray Crewe-Brown retired from the Group after nearly four years serving as Executive Chairman of the Plastics business. We would like to thank Ray for his contribution and wish him well in his retirement.

Neelin Naidoo joined Mpact effective 1 November 2013 as Managing Director of the Plastics business. We welcome Neelin and given his depth of experience and understanding of the industry, we look forward to his contribution to the development of the Plastics business and to the Group as a whole.

Vuyokazi Menye, the Group's CIO, resigned during the year to pursue other business opportunities after a short period with Mpact. Ziyaad Carrim has been appointed Acting Head of ICT.

Strategy

As in the past, our strategy is based on three key pillars which are:

- Leading market positions
- A customer-focused operating structure
- A focus on performance across all aspects of the business

To sustain and grow our leading market positions we will continue to look for opportunities to generate new business and grow our market share in key products and geographical areas. Our focus at this point remains rigid plastics and paper based packaging in sub-Saharan Africa.

We are considering acquisitions and projects where we are able to find value and strategic fit.

We also continue to invest in our existing operations and our geographic footprint in order to meet the changing needs of our customers and also to remain cost competitive.

Finally, while we are ambitious to grow, we will remain focussed on doing so while delivering good returns to our shareholders.

The primary financial performance target of the Group is measured against the achievement of a ROCE of 15%.

Chief Executive Officer's Report (continued)

Looking forward

Subdued demand growth in South Africa is expected to be a challenge during 2014, which could be compounded by further raw material cost inflation driven by the exchange rate.

Despite this we are confident in our strategy and will look to implement projects in the paper and plastic packaging sectors across the region.

As part of the implementation of the Group's strategy, in March 2014 the Board approved a capital investment of R765 million in Mpact's Felixton paper mill, situated near Empangeni in KwaZulu-Natal, to enhance our product offering and cost competitiveness through modernisation in line with global trends and to increase capacity. Improvements in energy efficiency and the mill's environmental footprint will also be realised. R155 million will be invested in the first phase of the project, which is expected to be completed during the first half of 2015 while the last phase is due for completion in the second half of 2017.

Mpact remains cognisant of the risks associated with its businesses and endeavours to mitigate these risks where possible. The major risks are set out on pages 13 and 14 in the Risk Management Review.

Safety and health

The safety and health of the people working across our business remains a key priority throughout. To this end the Group has a comprehensive health and safety management system which includes a behaviour-based safety programme aimed at identifying and eliminating barriers to safe work behaviour.

We deeply regret the death of Mr Sarel Byleveldt, a long-serving colleague from our Piet Retief Mill, who was fatally injured in a work-related incident in January 2013. We extend our heartfelt and deepest condolences to Mr Byleveldt's family, friends and colleagues. Following a thorough investigation into the incident involving the relevant parties, all possible measures have been taken to prevent another incident of this nature.

During 2013 progress was made implementing the "Hearts and Minds" programme and other initiatives aimed at preventing accidents and unsafe incidents. Eight lost time injuries were recorded across the Group (2012: 13) for the reporting period, resulting in a lost time injury frequency rate (LTIFR) of 0.13 (2012: 0.22).

Appreciation

First of all I would like to thank the members of the Board for their guidance and support during the year. I would also like to thank my fellow Exco members and all other Mpact employees for their loyalty and contribution towards the Group's performance and development. Finally, thank you to our shareholders, customers, suppliers, advisers and business partners for your ongoing support.

Bruce Strong
Chief Executive Officer

4 March 2014