

## Summary of integrated performance

Mpact is committed to sustainability principles, which underpins its business strategy, financial performance and operations. Management believes that the Group's leading market positions can only be maintained with business practices that are based on long-term sustainable development. In order to give effect to this, Mpact focuses on three key elements of sustainability – economic, social and environmental.

While this Integrated Report primarily deals with the Group's financial performance, the Group's Sustainability Review (available on [www.mpact.co.za](http://www.mpact.co.za)) describes how Mpact practices and implements these principles where it has direct influence and impact on communities and environments.

Mpact's efforts to uphold the principles of sustainability, corporate governance and social responsibility have been recognised by the inclusion of Mpact on the JSE SRI Index in November 2013.

While Mpact has developed a strong corporate culture of sustainable business practice, the Group is not complacent regarding its current performance and responsibility. Mpact is dedicated to continuous improvement in sustainability.

The Group will strive to realise its vision of being a leading business with the highest ethical standards and delivering exceptional value for its customers, employees, communities and shareholders.

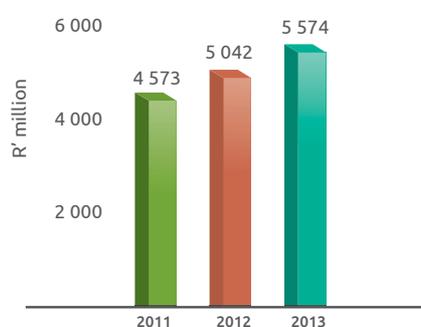


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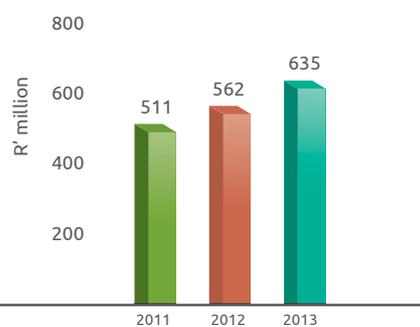
# Operational review

## Paper business Financial highlights

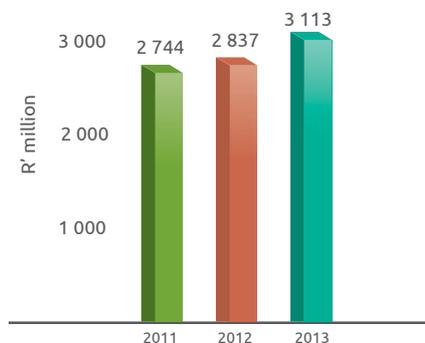
Revenue



Underlying operating profit



Operating assets



## Activities

### Recycling

Mpact is the largest paper recycler in South Africa. Recovered paper sources include pre-consumer and post-consumer material sourced from a multitude of paper pickup programmes including commercial, kerbside, schools, communities, housing complexes, offices and an extensive network of dealers.

The Group recovered 451,000 tonnes (2012: 457,000 tonnes) of paper in 2013. The slight decrease in tonnes of recovered paper collected is a reflection of lower consumption of packaged products. Of the recovered paper collected, 73% (2012: 73%) was consumed internally in the production of packaging and industrial papers, while the remaining portion was sold to external customers, including Mondi Shanduka Newsprint, for its newsprint production. Mondi Limited (Mondi) has a 25% interest in Mpact Recycling.

Mpact Recycling has seven operations across the country.

### Paper Manufacturing

The Paper Manufacturing division manufactures recycled-based packaging and industrial paper grades such as containerboard and cartonboard. Approximately 27% of the containerboard manufactured by the Group is consumed internally in the production of corrugated board and the remaining portion is sold to other converters. The actual proportion of internally or externally sourced containerboard consumed in any period by the Corrugated division depends upon the grade required for the final products.

In addition, Mpact sells ProVantage, Baywhite™, a premium quality white top kraftliner produced by Mondi, for which the Group has distribution rights in South Africa and the rest of sub-Saharan Africa.

The combined sales of recycled containerboard and cartonboard for the year ended 31 December 2013 amounted to 415,950 tonnes (2012: 407,297 tonnes).

The containerboard produced comprises, approximately 35% hardwood, softwood and bagasse pulp and 65% recycled fibre-based pulp. The main market for these products is the corrugated packaging industry.

The Group's customers for packaging and industrial paper include corrugated board and box producers, such as the Corrugated division and other containerboard converters. Cartonboard is sold to folding carton and other producers of industrial products, as well as for other uses such as cards and book covers.

The top 10 external paper manufacturing customers represented approximately 59% of external sales in 2013 (2012: 66%). Approximately 7% (2012: 10%) of the cartonboard and containerboard produced by the Group in 2013 was exported, predominantly to other African countries.

Paper Manufacturing has three mills located in Springs (Gauteng), Felixton (KwaZulu-Natal) and Piet Retief (Mpumalanga).

## Corrugated

The Corrugated division manufactures and sells a comprehensive range of premium quality printed and unprinted converted corrugated products, including board, which are used to manufacture corrugated packaging, corrugated boxes, die-cut cases, folded glued cases, trays and point-of-sale displays. All packaging is custom-made to specific customer needs and can be printed as required on site.

In September 2013, Mpack acquired a 51% interest in Detpak South Africa, a niche manufacturer of paper and board packaging for the Quick Service Restaurant sector. This provides Mpack with the opportunity to expand its paper converting business, servicing both the domestic and export markets.

The Group has maintained its leading market position by focusing on investments in modern technology and training, customer relationship management and a decentralised operating structure to provide regular improvements to the products the Group supplies.

The Corrugated division had saleable production of 432 million m<sup>2</sup> of corrugated packaging in 2013 (2012: 413 million m<sup>2</sup>).

Corrugated customers include producers of agricultural, FMCG and other durable and non-durable goods that use packaging primarily for the protection of products in transit and for point-of-sale display. Paper converted product customers are mainly in the QSR industry.

The top 10 corrugated packaging customers represented approximately 29% (2012: 27%) of the Group's external corrugated packaging sales in 2013.

This division has 12 corrugated plants, eight in South Africa, one in Mozambique and two in Namibia and the Detpak plant in Gauteng.

## Results for 2013

The Paper business achieved an increase in revenue of 10.5% to R5,574 million (2012: R5,042 million) and underlying operating profit up 13.0% to R635 million (2012: R562 million). The results were achieved on the back of good sales volume growth of higher value products such as fruit packaging boxes and whitetop liner as well as stringent cost control. Sales volumes for the second half of the year also exceeded the first half, in line with the seasonal trends experienced by this business. Overall, sales volumes were up 3.2% with higher average selling prices, attributable to a favourable product mix variance and increases implemented in the last quarter of 2012 to cover input cost escalation. The underlying operating profit margin increased to 11.4% (2012: 11.2%).

The Recycling division performed well with increased fibre supply to Mpack's paper mills despite a slight decrease in recovered paper collection volumes for the year.

The Paper Manufacturing division's performance was in line with expectations. Mpack increased its sales volumes mainly as a consequence of the displacement of imports as well as improved trade with the Group's local and to other SADC customers.

The Corrugated division reported a good set of results. Strong sales volumes from the agricultural sector were again partially offset by declining growth in the FMCG sector attributable to consumer spending pressure. During the year the modernisation programme at the Epping plant and Phase I of the modernisation programme at the Brakpan plant were completed. The new corrugators have afforded Mpack greater capacity and efficiencies, higher quality products and a decrease in operating costs.

## Strategy and objectives

The strategy for the Recycling division is to secure key recycled raw material for the Groups manufacturing operations in a cost-effective manner.

This division plays an essential role in the paper packaging value chain as it allows for further input cost management and improved quality throughout the Paper business. Mpack has started to implement its strategy of expanding its recycling operations into plastic in order to efficiently utilise its collection network.

Through ongoing investment in plant and equipment by the Corrugated and Paper Manufacturing divisions, Mpack continuously strives to maintain its leading market position through the improvement of both quality and design of products and systematically increasing production efficiency. This culminates in smarter, sustainable solutions for Mpack and its customers as well as improving the impact on the environment.

# Operational review (continued)

## Felixton Mill project

As mentioned elsewhere in this report, the capital investment of R765 million in the Felixton paper mill is part of this strategy. Below are further details of this project.

	Phase 1	Phase 2	Total project
Capex budget	R155 million	R610 million	R765 million
Commissioned	1H2015	2H2017	
Additional capacity	20,000 tonnes	40,000 tonnes	60,000 tonnes
Rationale	<ul style="list-style-type: none"> <li>■ Enhance product offering and quality</li> <li>■ Increase cost competitiveness</li> <li>■ Improvement in environmental footprint and efficiencies</li> <li>■ Increase capacity from 155,000 tonnes p.a. to 215,000 tonnes p.a.</li> <li>■ Move towards fully recycled fibre usage</li> <li>■ Enhance earnings, whilst exceeding through-the-cycle ROCE target of 15%</li> </ul>		
Funding	<ul style="list-style-type: none"> <li>■ Debt facilities</li> <li>■ Cash flow from operations</li> </ul>		

## Risk and sustainability

### Specific risks and opportunities

The overall key risks and opportunities for the Group are set out pages 13 to 15 of this Integrated Report.

However, the major risks that could specifically influence the Paper business and which are managed on a continuous basis are set out below in addition to the Group's overall risks:

Material risks	Management of these risks
Source of recovered paper declining	Retain and further develop cost-effective collection and distribution systems to increase the recovery rates
Imported product as well as competitor expansion creating over-capacity in the local market	Investing in Mpact's plants and equipment to improve the quality of products, flexibility and capabilities
Economic and competitive influences on sectors and consumers outside of Mpact's control	Consistently delivering smarter, sustainable solutions to its customers

The opportunities identified:

### Opportunities

- Further development of capabilities within the Recycling division to optimise the cost and quality of recycled material supplied to Mpack's operations
- Opportunities for optimisation and expansion with upgraded and new plant and equipment
- Acquisition opportunities in converted paper products

### Awards

During the year, the Overboard Springs Corrugated team achieved finalist status in the Transit and Secondary Packaging category of the 2013 Gold Pack Awards for the Woodlands Dairy 6 x one-litre square and the Nutso 10kg/Mayo 20kg catering packs, while the Western Cape team won six awards at the Flexographic Technical Association of South Africa's Flexographic Print Excellence Awards.

### Sustainability

The social and environmental initiatives undertaken by the Paper business are set out in the Sustainability Review, which is available on the company's website [www.mpact.co.za](http://www.mpact.co.za). Included in the Sustainability Review are product initiatives and certifications of all the manufacturing operations.

### Industry associations

- Paper Recycling Association of South Africa (PRASA).
- Paper Manufacturing Association of South Africa (PAMSA)
- Packaging Council of South Africa (PACSA)
- Printing South Africa – Statutory Council.
- Institute of Packaging.



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# Operational review (continued)

## Plastics business

### Financial highlights

Revenue



Underlying operating profit



Operating assets



### Activities

Mpac remains one of the leading producers of rigid plastic packaging in southern Africa. The Group's Plastics business manufactures a range of plastic packaging products for the food, beverage, personal care, homecare, pharmaceutical, agricultural and retail markets primarily in South Africa.

The products include:

- PET preforms, bottles and jars;
- closures for carbonated soft drinks and water;
- plastic jumbo bins, wheelie bins and plastic crates;
- plastic FMCG containers, such as bottles, jars and closures, with in-mould labelling; and
- styrene and PET trays, fast food containers and clear plastic films.

Mpac converted 89,912 tonnes (2012: 82,886 tonnes) of plastics in 2013, including the 1,3 billion (2012: 1.2 billion) preforms and PET bottles.

Styrene trays, fast food containers and clear plastic films are produced at two sites, in Paarl in the Western Cape and in Harare, Zimbabwe. PET trays are produced at the Paarl site, as well as in Alberton on Gauteng's East Rand. This site is part of the PET tray business of Marco Plastics, acquired in February 2013. Large injection moulded plastic jumbo bins for the agricultural market, "wheelie" bins and plastic crates are produced at the Group's plants in Atlantis in the Western Cape and Brits in Gauteng.

The other four Plastics sites, situated in Robertville and Wadeville in Gauteng, Pinetown (KwaZulu-Natal) and Atlantis (Western Cape) manufacture injection and blow-moulded preforms, bottles, containers and closures for the food, beverage, personal care, homecare and pharmaceutical industries.

The Plastics business continues to source raw materials from a number of South African and international suppliers.

The top 10 plastics customers represented 36% (2012: 39%) of the Plastics business' sales in 2013.

### Results for 2013

Revenue in the Plastics business was up by 19.4% to R2,124 million (2012: R1,778 million) of which 1% is attributable to the acquisition of the PET tray business of Marco Plastics in February 2013. During the year the minority interest in Versapak was also bought. Plastics' sales volumes, measured in tonnes, were up 10.7%. The growth in volumes was mainly due to the strong demand for bins and crates in the agricultural sector and preforms and closures for the beverage sector. The decline in underlying operating profit of 9.3% to R106 million (2012: R117 million) and the resultant decline in the underlying operating profit margin to 5.0% (2012: 6.6%) were a function of average selling prices increasing by only 7.9% including mix variance, which was insufficient to cover increases across all polymers which were up as much as 35% on the same period last year in the case of styrene.

## Strategy and objectives

The Plastics business continues to have strong potential for growth as producers continue to substitute packaging such as glass and metals with rigid plastics. Mpact has already made some small acquisitions in this sector and will continue to pursue growth opportunities, organically as well as through optimisation and new projects. Further restructuring of certain FMCG businesses is taking place, whilst operations where restructuring has been completed, have performed satisfactorily.

## Risk and sustainability

### Specific risks and opportunities

The overall key risks and opportunities for the Group are set out pages 13 to 15 of this Integrated Report.

However, the major risks that could specifically influence the Plastics business and which are managed on a continuous basis are set out below in addition to the Group's overall risks:

Material risks	Management of these risks
Inability to predict future market movements in raw material prices and lags in pricing recovery	<ul style="list-style-type: none"> <li>■ Strong supplier relationships</li> <li>■ Continuous market monitoring and proactive pricing</li> </ul>
Multinational FMCG plastic container manufacturers entering the local market	<ul style="list-style-type: none"> <li>■ Exploring alternative product offerings</li> <li>■ Investigate cross-border opportunities</li> </ul>

The opportunities identified:

Opportunities
<ul style="list-style-type: none"> <li>■ Investment in a plastic recycling process to gain cost efficiencies on the extruders</li> </ul>
<ul style="list-style-type: none"> <li>■ Acquisition and other expansion opportunities</li> </ul>
<ul style="list-style-type: none"> <li>■ Additional exports into the rest of Africa</li> </ul>

### Awards

Four entries were submitted to the 2013 Gold Pack Awards, three from Atlantis and one from Robertville. The Vital Health Foods container won a Silver medal in the Health, Beauty and Personal Care Category, while the Woolworths honey bottle got a Judge's Special Mention for consumer convenience in the Ambient Food Category.

### Sustainability

The social and environmental initiatives undertaken by the Plastics business are set out in the Sustainability Review, which is available on the company's website [www.mpact.co.za](http://www.mpact.co.za). Included in the Sustainability Review are product initiatives and certifications of all the manufacturing operations.

### Industry associations

- PETCO.
- Plastics SA
- Polystyrene Packaging Council.



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