2 OPERATIONAL REVIEW

CHIEF EXECUTIVE OFFICER'S REPORT

RESOLUTE

2017 IS EXPECTED TO REMAIN CHALLENGING FOR MPACT. WE ARE HOWEVER CONFIDENT THAT OUR STRATEGY WILL ENABLE US TO ACHIEVE SUSTAINABLE GROWTH.

BRUCE STRONG

This has been a challenging year for Mpact, especially when compared to 2015 when the Group achieved profit growth of 36.3% over the prior year.

The disappointing financial results for the year ended 31 December 2016 were mainly due to high recovered fibre prices, lower containerboard sales, a significantly higher tax rate and higher finance costs compared to the prior year as well the loss made by Mpact Polymers.

The converting businesses of Paper and Plastics delivered good results despite challenging trading conditions and increased levels of competition.

In the Paper manufacturing business, lower external containerboard sales were a result of certain Mpact customers increasing containerboard capacity in their own paper mills during the first quarter of the year. This also caused a shortage of recovered fibre, specifically old corrugated containers (OCC), which is a key raw material in paper manufacturing. Consequently, OCC prices reached record levels which could not be fully recovered in containerboard selling prices, thus impacting profitability further.

While these factors hurt our Paper manufacturing business' profitability during the period, and will have an effect in 2017 as well, we are confident that our interventions will yield good results and sustainable growth in future.

These interventions include the acquisition of Remade in May 2016, until then the largest independent recycling business in South Africa. The acquisition complements a number of initiatives by Mpact Recycling to expand its own collections of paper and plastic, and to increase recycling rates of these materials in South Africa. This in turn will ensure a sustainable and cost effective supply of waste paper and used PET bottles, which are key raw materials in some of our bigger operations.

The full strategic benefit of Remade will only be realised once our obligations to supply our competitors with waste paper have been met early in 2018.

A further related intervention in the Paper business is the R765 million Felixton paper mill upgrade project, the final phase of which is due to be completed during the second half of 2017. This will significantly improve our cost competitiveness, the quality of our products and also enhance our product offering in the recycled containerboard and corrugated markets, offering products that currently have limited availability in South Africa.

The loss in Mpact Polymers was greater than we had planned during the ramp-up phase. While the throughput of the plant for the full year was reasonable compared to our initial estimations, the cost of production was significantly higher and average rPET selling prices were lower. On the positive side we secured all required approvals from major customers who are now using Mpact's Savuka™ PET in their packaging. We remain very optimistic about the prospects of this business given the progress made to date and the ambitions of our customers to increase recycling rates of PET.

Following a review of the prospects for our plastics manufacturing operation in Zimbabwe, including the capital expenditure required to remain competitive, a decision was taken to close it during 2016. The Group remains committed to meeting the obligations we have to customers in Zimbabwe through supplies from South Africa.

The financial performance of the Group is set out in the Chief Financial Officer's Review on pages 68 and 69 with the Paper and Plastics business operational reviews detailed on pages 30 to 35 of this report.

On the **people front**, engagements through CEO Imbizo's at several of the Group's operations provided opportunities to celebrate successes in person with our employees and also to gain insight into opportunities they have identified as well as their concerns. On the whole, issues raised were not dissimilar to those concerning most conscientious South Africans and included transformation and opportunities for advancement and prosperity. To this end Mpact has a comprehensive skills development and talent management programme for employees. The Group also provides financial assistance to employees for part-time tertiary studies which amounted to approximately R1.5 million in 2016. As part of our transformation initiatives the Mpact Foundation Trust, which was established in 2015, awarded 15 fully funded tertiary education bursaries to dependants of previously disadvantaged Mpact employees during the year.

I am also pleased with our progress in achieving meaningful transformation. **Transformation** is an important aspect of sustainability. It must be value accretive and translate into true empowerment. As such, I am proud of the transaction concluded towards the end of 2016, between Mpact, Mr Mohlomi Mothobi, previously a director and employee of Mpact Operations Proprietary Limited and Dr. Nathi Nqobo, also previously an employee of Mpact's Paper business, which realised the establishment of Dalisu Holdings Proprietary Limited (Dalisu). Mpact owns a 49% equity interest in Dalisu, an industrial chemicals company which will focus on the commercialisation and marketing of dust suppression products within the mining industry. The main ingredient in this chemical product is one of the by-products generated by Mpact's Piet Retief paper mill.

The succession of the corrugated business Managing Director has been a remarkable success with Johan Stumpf now being firmly in the driving seat and Ralph von Veh continuing to make a valuable contribution in Remade, Mpact Polymers and other converting businesses.

Mpact's zero harm approach to safety is guided by the CEO's Safety, Health and Environmental Philosophy which states that, "all injuries, occupational illnesses, safety and environmental incidents and fires are preventable and the target for them is zero".

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

During 2016 we added a new safety performance indicator to the Lost Time Injury Frequency Rate (LTIFR), which we have called the Serious Injury Frequency Rate (SIFR). Where the more common LTIFR is based on the number of fatalities and Lost Time Injuries (LTI), the SIFR adds to these Restricted Work Cases (RWC). We believe this provides a better measure of our zero harm objectives. The SIFR for the Group, excluding Remade, decreased from 0.54 in 2015 to 0.51 in 2016 thanks mainly to a decrease in RWC's. Including Remade, the SIFR for 2016 was 0.63. A testimony to how Mpact's approach to safety makes a positive difference is reflected in the remarkable transformation within Remade after only eight months in the Group. They recorded 44 LTI's in the 12 months prior the date of acquisition which improved to nine LTI's in the eight months thereafter. Although this is still not acceptable, the progress is self-evident.

Mpact's strategy and objectives, summarised on page 11, are to maintain and grow our leading market positions, enhance our customer-focused operating structure and deliver sustainable financial returns.

The economic outlook for 2017 remains subdued and most of the factors that impacted negatively on the profitability of the Group in 2016 are likely to persist.

The negative effects of excess recycled containerboard capacity in South Africa are expected to continue during 2017. This together with higher recovered paper prices is expected to exert pressure on the profits in the Paper business.

The completion of the R765 million Felixton mill upgrade, due in the second half of 2017, is on schedule and within budget. As part of the project, the mill is scheduled to be shut for 50 days starting at the end of May 2017.

We anticipate an improved trading performance in Mpact Polymers on the back of increased demand for Savuka™ PET, higher throughput and a better yield.

Across the business, our focus in the short term is to improve profitability and ROCE despite the prevailing trading conditions. In addition, we will continue to pursue strategic growth opportunities across the Group. These include the R150 million expansion of the Port Elizabeth corrugating facility as well as capital investments of over R120 million in the Mpact Plastics containers facilities in Brits and Atlantis, all of which were approved by the Board during 2016.

The expansion of the Port Elizabeth plant is scheduled to be completed during the second quarter of 2018, and will bring to an end our extensive capital investment programme in corrugated which commenced about six years ago and has seen cumulative investments of over R800 million. This business is now well capitalised and able to meet the future demands of our customers in terms of cost competitiveness, quality and service. The Plastic containers investment will further enhance our leading market position in the agricultural jumbo bin and wheelie bin sectors.

I would like to express my sincere appreciation to Tony Phillips, our Chairman, and the Board for their guidance and support during the year. I would also like to thank the Mpact team for their dedication and resilience and for remaining focused on achieving our strategic objectives despite the trying conditions. To our various stakeholders and partners, we extend our thanks for your continued support.

We believe that Mpact has a robust strategy and that we have the necessary agility to respond to both the challenges and opportunities going forward. We remain committed to delivering profitable growth for the Group over the long term for the benefit of all our stakeholders.

Bruce Strong
Chief Executive Officer

1 March 2017

EXECUTIVE MANAGEMENT

ROLE AND FUNCTION OF THE EXCO

The Exco, under the CEO's leadership, is responsible for the execution of the Board-approved strategy and the day-to-day running of the business, and is accountable to the Board in this regard.

This committee, which meets six times a year, is responsible for the Group's operational activities, developing strategy and policy proposals for consideration by the Board and implementing the Board's directives. The committee has a properly constituted mandate and terms of reference. Other responsibilities include:

- leading the executive, management and staff of the Group;
- developing the annual budget and business plans for approval by the Board;
- developing, implementing and monitoring policies and procedures, internal controls, governance, risk management, ethics and authority levels;
- monitoring and enforcing good corporate governance practices and the application of the Code of Ethics, as defined and adopted by the Board;
- guiding and controlling the overall direction and control of Mpact, and acts as a medium of communication between business units, subsidiaries and the Board;
- ensuring appropriate co-ordination between Mpact, its subsidiaries and the various business units; and
- ensuring the adequacy of the Group's reporting arrangements.

The Exco has specific key performance areas and targets which are set in line with the approved strategy and monitored by the Board with the assistance of the Remuneration and Nomination Committee.

John William Hunt (53)

BSc (Eng), MSc (Eng) (University of KwaZulu-Natal)

John has held the position of Managing Director of the Recycling division since May 2011. His previous role was as the Business Manager for Technology Optimisation in the Group. He has served as the Executive Director of the Paper Manufacturers Association of South Africa and has more than 20 years' experience in the paper industry.

Mohlomi Peter Mothobi (50)

BSc (Chemistry) (National University of Lesotho), BSc (Chem. Eng.) (University of Pretoria), MBA (University of Wales)

Mohlomi joined Mpact as General Manager: Business Development in February 2012 from Tetra Pak where he worked for 11 years as the Projects and Engineering Manager for sub-Saharan Africa. Mohlomi's main focus was developing business opportunities for Mpact beyond the regions in which the Group operates. Mohlomi resigned effective 1 January 2017 as a Director and employee of Mpact Operations.

Neelin Naidoo (53)

MBA (Herriot Watt University, United Kingdom), FCIS, FCMA

Neelin joined Mpact as the Managing Director of Mpact Plastics on 1 November 2013. Neelin was the CEO of MCG Industries and has over 30 years' experience in the packaging industry. He is a Director of the Polyolefin Recycling Company (Polyco).

MANAGEMENT

Mpact has a solid management team, each with years of experience and in-depth understanding of the packaging industry necessary to deliver against the Group Strategy.

During the year under review, Mohlomi Mothobi, previously a member of the executive management team, resigned as a director and employee of Mpact Operations, to establish Dalisu together with Mpact. Dalisu aligns with Mpact's beneficiation strategy. Refer to the CEO's Report on page 25 for more information on Dalisu.

Hugh Michael Thompson (51)

BCom, CTA
(University of South Africa), CA(SA)

Hugh has been the Managing Director of the Paper Manufacturing division since October 2009. He fulfilled the role of CFO of Mpact until March 2007 and then the role of Managing Director of the Plastics division until September 2009. He has more than 10 years' experience in the packaging sector. He was previously Senior Vice President (Corporate Finance) for Anglo American South Africa Limited.

Johan Stumpf (49)

BEng (Hons)(Industrial),
MBA (Cum Laude)

Johan joined Mpact on 1 October 2015 and was appointed Managing Director of the Corrugated business with effect 1 January 2016. He served as Managing Director of the Klein Karoo Group since 2009. Prior to joining the Klein Karoo Group, Johan spent six years as Managing Director of Sundays River Citrus Company (Pty) Ltd, the largest packer and marketer of citrus in southern Africa. Johan's diverse experience also includes six years with SABMiller as production and engineering manager as well as management and executive roles in supply chain management and consulting.

Ralph von Veh (65)

Ralph was the Managing Director of the Corrugated business until 31 December 2015, having been in this position since 1999. Ralph remains with the Group as a member of Mpact's Executive Committee, responsible for Remade, Mpact Polymers, Detpak and Pyramid, and represents Mpact's interests on the boards of other Mpact subsidiaries and associates. Ralph will also assume responsibility for certain strategic business initiatives. Prior to joining Mpact, Ralph was the Regional Director of Kohler Corrugated. He has more than 40 years' experience in the paper and packaging industry. Ralph is a director of Packaging SA.

Noriah Mmapule Sepuru (45)

FCIBM, ACIS

Company Secretary

Noriah was appointed Group Company Secretary at Mpact on 1 December 2011. Prior to this, Noriah was Company Secretary at Jasco Electronics Holdings Limited and spent four years at Barloworld Limited in various Company Secretarial positions. Noriah is a member of Institute of Directors South Africa, an Associate Member of the Chartered Institute of Secretaries and a Fellow Member of the Chartered Institute of Business Management.

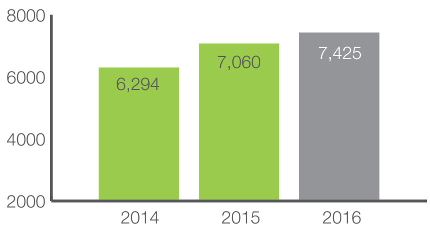
COMPOSITION

The Exco comprises Bruce Strong (Chairman), Brett Clark (CFO), Hugh Thompson, John Hunt, Neelin Naidoo, Johan Stumpf and Ralph von Veh as the members. Other senior managers attend the meeting by invitation.

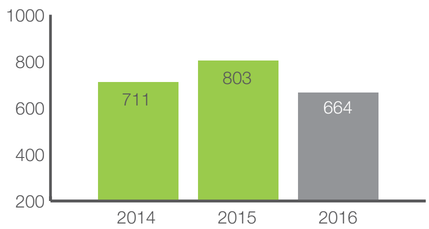
PAPER BUSINESS

FINANCIAL HIGHLIGHTS

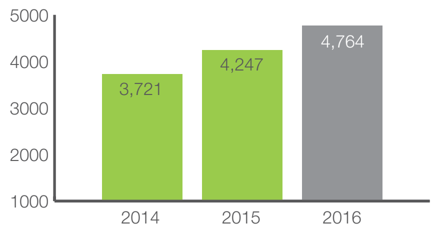
Segment revenue (R'million)



Underlying operating profit (R'million)



Operating assets (R'million)



OPERATIONAL ACTIVITIES

Mpact Recycling has 16 recycling operations around the country, which include Remade's nine operations. Recovered recyclable materials such as paper and used PET bottles are sourced through a multitude of pre- and post-consumer programmes run by Mpact Recycling of which Remade is a subsidiary. The materials are then sorted and baled before being sent onto Mpact's paper mills and to Mpact Polymers to be used as raw materials.

Mpact has three paper mills located in Springs (Gauteng), Felixton (KwaZulu-Natal) and Piet Retief (Mpumalanga) that manufacture recycled-based packaging and industrial paper grades such as containerboard and cartonboard.

The Group's main markets for packaging and industrial paper include corrugated board and box producers and other containerboard converters. Mpact also has exclusive distribution rights to sell ProVantage Baywhite™, a premium quality white top kraftliner produced by Mondi, in sub-Saharan Africa. Cartonboard is sold to folding carton converters and other producers of industrial products, as well as for other uses such as the manufacture of cards and book covers.

The containerboard produced averages approximately 35% hardwood, softwood and bagasse pulp and 65% recycled fibre-based pulp. The upgrade of the Felixton mill will eliminate the mill's use of bagasse.

The Paper converting business manufactures premium quality corrugated packaging products, provides high-graphic printing capabilities and other converted paper products primarily for the QSR sector. It comprises 14 converting plants, nine in South Africa, one in Mozambique, two in Namibia and one in Botswana.

Mpact owns a 51% interest in Pyramid, a paper bag and sacks manufacturing plant in Gaborone (Botswana). Pyramid manufactures paper bags for maize products, sugar and flour, as well as sacks for charcoal and cement. Mpact also has a 51% interest in Detpak South Africa, which offers an extensive range of paper and board packaging solutions including cups, lids, cartons, bags, napkins, trays and clam shells for the QSR sector.

OPERATIONAL PERFORMANCE

Revenue in the Paper business increased by 5.2% to R7.4 billion of which 4% is attributable to Remade which was acquired in May 2016. Excluding Remade, Paper segment volumes declined 7% while the average price variances reflect a significant mix component. Underlying operating profit of R664.1 million was 17.3% lower, on the back of higher recovered paper costs and lower external sales volumes.

The Paper converting business delivered a stable performance, growing revenue and maintaining margins, despite the drought, challenging trading conditions and increased levels of competition.

Lower containerboard sales were a result of certain Mpact customers increasing containerboard capacity in their own paper mills during the first quarter of the year. This caused a shortage of recovered paper, a key raw material, which led to higher input costs that could not be fully recovered in selling prices, thus further impacting profitability.

According to The Paper Manufacturers Association of South Africa, the paper recovery rate in South Africa for 2015 was over 60%, well ahead of global recovery rates of 56%.

Demand for fibre by Mpact's paper mills was largely met but approximately 6,600 tonnes (2015: 6,900 tonnes) of waste paper had to be imported during the year. Mpact recovered 623,000 tonnes (2015: 527,000 tonnes) of recyclable materials in 2016. The increase reflects the contribution of Remade which was acquired in May 2016.

The corrugated and converted paper products business' results were stable with total volumes slightly lower than the previous year. Saleable production in 2016 of 434 million m^2 of corrugated packaging was achieved (2015: 437 million m^2). The combined sales of recycled containerboard and cartonboard for the year ended 31 December 2016 were 405,260 tonnes (2015: 427,640 tonnes).

Detpak performed well on the back of QSR-growth, despite consumers downsizing to more economic portions. Pyramid experienced a highly competitive market and delivered subdued results. Cost saving and efficiency improvements continued on the back of capital investments in modern equipment and stringent cost control.

STRATEGY AND OBJECTIVES

Mpact's Paper business is based on an integrated strategy from collecting recyclables to manufacturing packaging papers and producing corrugated and converted paper products. The shift in strategies on the part of Mpact's competitors and major customers, where Mpact's paper manufacturing customers increasingly focus on backward integration by manufacturing their own paper, has had a marked impact on the corrugated paper industry, from waste paper collection right through to manufacturing. Despite these challenges together with economic pressures being experienced by customers, Mpact continues to adopt interventions that will enable it to maintain and grow its leading market position and improve efficiency.

The Recycling business continues to form a vital part of the paper packaging value chain as it allows for input cost management and security of supply for the paper manufacturing business. Mpact acquired Remade in May 2016 to meet the increase in recycled paper and plastics demand for the upgraded Felixton mill, the new Mpact Polymers rPET plant and the recently commissioned liquid-packaging recycling plant at the Springs Paper mill. Remade is collector and trader of recyclable packaging materials. The Remade acquisition is an excellent fit with Mpact's existing recycling business and meets the Company's integrated strategy and objectives. The recycling market is expected to remain tight in 2017 with robust waste paper demand continuing.

Mpact's success is dependent on both ensuring that its processes at its paper mills are efficient and cost effective and its product offerings are relevant. Mpact is pleased to report that each capital project undertaken during 2016 was successfully commissioned and fulfilled the strategic objectives set. The completion of the R765 million Felixton mill upgrade, due in the second half of 2017, is on schedule and within budget. As part of the project, the mill is scheduled to be shut for 50 days starting at the end of May 2017.

The Company has approved an investment to the value of approximately R150 million to modernise and expand the Port Elizabeth corrugated plant, which will allow Mpact to meet the increase in demand in the agricultural sector in the region.

RISK AND SUSTAINABILITY

Employees

The Paper business employed 3,536 employees (2015: 2,897 employees) as at 31 December 2016. The increase is mainly attributable to the Remade acquisition.

Customers and suppliers

62% of the paper recovered by Mpact Recycling was consumed internally in the production of cartonboard and containerboard products, with the balance sold off to Mondi Shanduka Newsprint and other customers.

The recovery and recycling of paper in South Africa ensures local beneficiation of raw materials and the creation of jobs. Approximately 32% (2015: 27%) of the cartonboard and containerboard manufactured by Mpact's paper mills is consumed internally by Mpact's paper converting business in the production of corrugated board. The balance is sold to other converters. The top 10 external paper manufacturing customers represented approximately 58% (2015: 69%) of paper manufacturing external sales in 2016, with approximately 14% (2015: 10%) of the products produced being exported, mainly to other African countries.

Corrugated customers include producers of agricultural, FMCG and other durable and non-durable goods that use packaging primarily for the protection of goods in transit and for point-of-sale display, while converted paper product customers are mainly in the QSR industry. The top 10 corrugated packaging and converted paper products, customers represent approximately 25% (2015: 26%) of the external corrugated packaging and converted paper products sales in 2016.

PAPER BUSINESS CONTINUED

Material risks and opportunities

The overall key risks and opportunities for the Group are set out pages 13 to 15 of the Integrated Report. However, the major risks and opportunities that could specifically influence the Paper business and which are managed on a continuous basis are set out below:

Material risks	Management of these risks
Volume of recovered paper declining	• Retain market position as the leading paper recycler in South Africa and preferred buyer of recovered paper. • Remade acquisition will benefit Mpact once long-term commitments with existing customers end.
Imported product as well as competitor expansion creating over-capacity in the local market	• Invest in Mpact's plants and equipment to improve the quality of products, flexibility and capabilities and to ensure that the products meet the market needs.
Changes in competitor landscape and customer backward integrated strategies	• Drive production efficiencies and cost containment through rationalisation, streamlining and automation to maintain margins. • Product innovation key to ensure customer retention and expansion.
Water supply restrictions	• Monitor water consumption on a daily basis and interact with relevant authorities. • Drive to decrease water consumption at all the paper mills and manufacturing plants. • Government-planned upgrade of the Tugela Water Transfer Scheme will assist with the sustainability of water supply from around 2018 at the Felixton Paper mill.
Power supply outages resulting in lost working hours and supply shortages	• Ongoing communication with Eskom and local municipalities. • Work different shifts to manage capacity.
Economic and competitive influences on sectors and consumers outside of Mpact's control	• Consistently delivering smarter, sustainable solutions to its customers to meet their objectives and strategy. • Monitor land reform policies and impact on agricultural customers.

Opportunities

- Continue to offer employment opportunities for entrepreneurs and for traders to deliver recovered paper to buy-back centres.
- Opportunities for optimisation and expansion with upgraded plant and equipment.
- Acquisition opportunities in converted paper products.
- Continue to educate consumers and municipalities regarding the benefits of recycling waste.
- Align capital spend with growth industries in existing regions.
- Export opportunities into Africa and South East Asia.

Industry associations

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

Environmental sustainability

All three paper mills and corrugating plants carry the ISO 14001 and ISO 9001 certification, while the recycling operations, excluding Remade, carry ISO 14001 certification, demonstrating Mpact's commitment to world class environmental and quality management standards.

The paper mills also carry the Forest Stewardship Council (FSC) mixed-source accreditation. This emphasises the responsible management of raw materials throughout the product lifecycle of Mpact's products, ensuring the re-use of wood fibre-based raw materials and preventing waste paper from entering landfill sites. In line with this, virgin pulp used in the white-lined products is also sourced from FSC-accredited mills.

Mpact acknowledges that South Africa is a water scarce country. In light of this the paper mills have invested and continue to make capital investments to reduce water consumption, through process optimisation, water treatment and recycling, and investment in low water technologies.

Mpact continues to engage on the water issue with various parties, including government, not only because this pertains to the availability of the water, but also to water quality. Of concern to the business is the failure of sewage and water treatment plants, which combined with constrained municipal water supply, poses a threat of the outbreak of waterborne diseases across the country.

Similarly the paper mills and corrugating operations have invested in technologies to reduce energy consumption of fuels used on site and electricity purchased, thereby reducing reduced greenhouse gas emissions.

Please see our Sustainability Review 2016 on the Group's website for more detail.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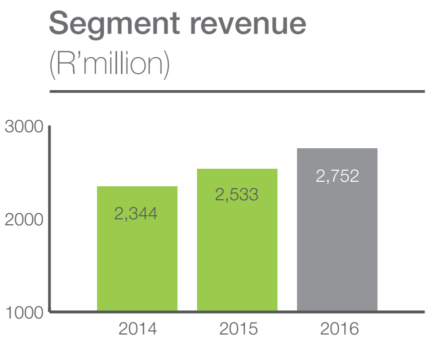
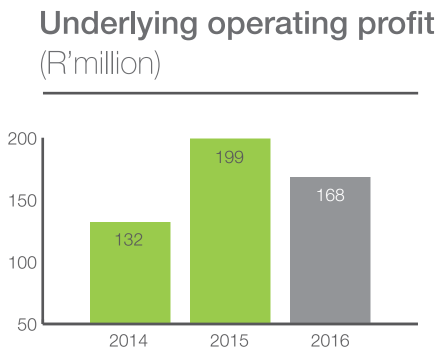
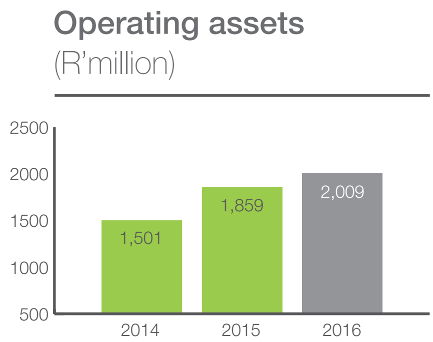
PLASTICS BUSINESS

FINANCIAL HIGHLIGHTS







OPERATIONAL ACTIVITIES

Mpact 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, environmental and retail markets, primarily in South Africa.

Manufactured products include:

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

Mpact converted 105,117 tonnes (2015: 99,366 tonnes) of plastics, including 1.4 billion (2015: 1.4 billion) preforms, jars and PET bottles during the year ended 31 December 2016. Mpact started manufacturing recycled PET in 2015 for use in its packaging products, and for external plastic converting customers.

The Plastics converting business has eight operating sites across South Africa.

The Paarl (Western Cape) and Wadeville (Gauteng) operations produce styrene trays, clear plastic film and PET trays. The Group closed the styrene trays business in Zimbabwe in December 2016.

Large injection moulded plastic jumbo bins for the agricultural market, environmental wheelie bins and plastic pallets and crates are produced at the Group's plants in Atlantis (Western Cape) and Brits (North West).

Four Plastics sites, two situated in Wadeville (Gauteng), one in Pinetown (KwaZulu-Natal) and the other in Atlantis (Western Cape) manufacture injection, compression, injection stretch blow moulded, as well as blow moulded products, such as preforms, bottles, containers and closures for the food, beverage, personal care, homecare and pharmaceutical industries.

The Mpact Polymers rPET plant is situated in Wadeville (Gauteng). The plant was developed, in collaboration with key customers, to convert collected used PET bottles into a recycled PET raw material product through various processes. Mpact Polymers is owned 79% by Mpact and 21% by the IDC.

OPERATIONAL PERFORMANCE

Revenue in the Plastics business increased by 8.6% to R2.8 billion due to higher selling prices and a favourable mix of products sold. Sales volumes in the Plastics converting business were in line with the prior year. Sales in Mpact Polymers for the year totalled 7,603 tonnes of which 4,310 tonnes were to external customers.

Underlying operating profit of R168.4 million declined 15.3% from the prior year, mainly as a result of the loss incurred in Mpact Polymers. The loss in Mpact Polymers was greater than planned during the ramp-up phase because of higher costs of production and lower average rPET selling prices. All of the required approvals from major customers have been secured and they are now using Mpact's Savuka™ PET, in their packaging.

The Plastics converting business achieved an underlying operating profit of R255 million with a margin of 9.4%. The after-tax cost attributable to the closure of the Zimbabwe operation of R30 million is disclosed as a special item.

Sales volumes measured in tonnes were unchanged for the period under review. Volumes grew in plastic containers ahead of the Municipal Election in August countered by lower volumes in FMCG, styrene trays, preforms and closures. Preforms and closures were impacted by the water-crisis as well as CO_2 shortage in the fourth quarter affecting the volume demand from beverage bottlers. This shortage together with the cold weather over the Festive Season in Gauteng, did dampen demand for preforms and closures. PET trays and jumbo bins reported good growth in volumes due to strong demand in the agricultural sector. The FMCG business, despite a decline in volumes, had a very good year with product mix and cost control making a positive contribution.

STRATEGY AND OBJECTIVES

The Plastics business remains focused on opportunities for growth through innovation as well as the substitution of alternative packaging materials with rigid plastics. The strategy also includes organic expansion through optimisation and new projects as well as assessing acquisition opportunities.

The competitive landscape in the plastics industry in South Africa has increased with new competitors in the trays and films sector entering the market as well as a new international player that has acquired a local rigid plastics company.

There is a campaign by both international and local food retailers, to use a greater percentage of rPET in their plastic packaging, with some already increasing rPET from 10% to 20%. Through Mpact Polymers, the Group is able to offer high quality rPET to its existing and new customers. At full capacity, Mpact Polymers will convert 29,000 tonnes of used PET bottles into 21,000 tonnes of rPET.

RISKS AND SUSTAINABILITY

Employees

The Plastics business employed 1,462 employees (2015: 1,448 employees) as at 31 December 2016.

Customers and suppliers

Mpact Polymers supply rPET to the Mpact Plastics businesses and external customers. The Plastics business continues to source raw materials from a number of South African and international suppliers.

The top 10 Plastics converting customers represented 34% (2015: 35%) of the Plastics converting business' sales in 2016.

Industry associations

- PETCO
- Plastics SA
- Packaging SA
- Polyco
- Polystyrene Packaging Council

Environmental sustainability

The plastics business has intensified its focus on environmental sustainability with respect to energy, water and material use and waste disposal.

At full capacity, the rPET plant can save 180,000 m^2 of landfill space each year when it processes approximately 29,000 tonnes of used PET bottles per month.

Other recycling initiatives include the wheelie bin and crate recovery programmes by Mpact Plastic Containers, whereby damaged bins and crates are returned to the operations by the owners for recycling.

The Plastics plants carry ISO 9001 quality management certification while Mpact Plastic Containers' operations at Atlantis and Brits also carry ISO 14001 environmental management certification.

Improved equipment and process optimisations across the Plastics business have also resulted in lower energy and water consumption, and waste material losses.

More details are available in the Sustainability Review 2016 on the Group's website.

Material risks and opportunities

The overall key risks for the Group are set out pages 13 to 15 of the 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.

Material risks	Management of these risks
Inability to predict future market movements in raw material prices and lags in pricing recovery.	• Strong supplier relationships. • Continuous market monitoring and proactive pricing.
FMCG industry volume decline on the back of consumer spending pressure.	• Enhance competitiveness through optimisation programmes and investments. • Explore alternative product offerings. • Investigate cross-border opportunities.
New plastic manufacturers, international and local, entering the market.	• Use of rPET to enhance cost-competitiveness and maintain margins. • Product innovation.
Power supply outages resulting in lost working hours and supply shortages.	• Ongoing communication with Eskom and municipalities.
Water crisis and CO_2-shortage.	• Discussions with customers, water authorities and municipalities.
Tax proposed by Government on sugar-sweetened beverages.	• The proposed "Sugar Tax" will be monitored closely as well as the effect on our beverage customers' sales volumes.

The opportunities identified

- Acquisition and other expansion opportunities.
- Product innovation.
- Additional exports into the rest of Africa.