COMMENTARY

SECTION HIGHLIGHTS

Chairman's Statement

Mpact has embarked on exciting capital projects to enhance its manufactured and natural capital.

Introduction

Against the background of a subdued global and local economy, Mpact has maintained its position as one of the largest paper and plastic packaging businesses on the continent. The year ended 31 December 2014 was characterised by strikes, a weak currency and rising import costs in South Africa and has, without a doubt, been challenging once again. However, there can be no doubt that Mpact's ability to implement cost-saving initiatives and enhance operational performance have allowed it to outperform the market in many instances and produce solid results.

Human, social and relationship capital

I am pleased to report that no fatalities were recorded during the operational year and our safety and health programmes remain a key priority for all operations.

The Group's emphasis on the value of human, social and natural capital as an integral part of its financial performance has provided a stable platform for all its stakeholders. Mpact was included in the JSE's SRI Index and continues to enhance its reporting on sustainability issues. Mpact endeavours to uphold the principles of sustainability, corporate governance and social responsibility. In part, this is due to undertaking stakeholder engagement, which is encouraged by King III and the Companies Act, while maintaining transparency and open communication, which is viewed as critical to long-term success.

A total of 57,112 man-hours (2013: 64,417 man-hours) were devoted to training and skills development, with Mpact spending R4.6 million (2013: R5.6 million) during 2014 on CSI initiatives. The Mpact B-BBEE scorecard currently stands at Level 5 Contributor Status. We are proud to announce our intention to pursue another B-BBEE ownership transaction through the launch of the Mpact Foundation Trust, which we expect to conclude by the end of June 2015. The objectives of this Trust are to pursue true empowerment of previously disadvantaged stakeholders with a focus on broad-based groupings; create a sustainable funding structure; and complement existing B-BBEE initiatives whilst preserving existing value for current shareholders and materially improving Mpact's B-BBEE ownership credentials.

Further details of this can be found in the Chief Executive Officer's Report.

Our industry

The pulp and paper manufacturing industry remains a key contributor to the South African economy, with an enormous investment in local resources, innovation and people. The forestry-to-paper value-add to the local economy in 2014 was R18.2 billion or 0.6% of South Africa's GDP. Within this industry Mpact is one of the major players, with manufacturing operations in South Africa, as well as in Namibia, Mozambique, Zimbabwe and Botswana. As South Africa's largest collector of recovered paper for recycling, the Group recovered 450,277 tonnes of paper in 2014. Paper recovery trends in South Africa remain good with a total of 1,169,296 tonnes, equating to 65% of total recoverable paper, being collected for recycling in 2014.

The inability of Eskom to provide sufficient electricity to meet industrial and domestic demand is one of the major risks facing many companies. Mpact has addressed this risk and has disclosed the measures the company is taking to mitigate this specific risk in the material issues section of this Integrated Report, as well as in the Operational Review.

Capital investment

Capital investment remains the lifeblood of Mpact, and this year's results are testimony to the Group's constant drive to improve the quality of its products, enhance production efficiencies by rebuilding or replacing machinery in its operations, and to employ experienced people who are passionate about the business. Mpact's capital spend for the year ended 31 December 2014 was R701 million (31 December 2013: R387 million), which equates to 177% of depreciation and amortisation.

The two major capex projects are on time and within budget. The R350 million PET recycling plant and the R765 million upgrade at the Felixton Mill provide tangible evidence of our commitment to exploiting growth opportunities.

Outlook

The coming year seems likely to be marked by muted consumer demand, erratic power supply and a tepid economic outlook in South Africa, with real GDP growth expected to be between 2.1% and 2.5% in 2015.

However, I am confident that the Group's strategy, sustainability, risk management and business excellence policies will more than meet these challenges under the guidance of Mpact's experienced and motivated management team.

Appreciation

The performance of Mpact is attributable to the dedication and commitment of the management team and staff and I would therefore like to thank Bruce Strong and his team for their hard work during this challenging period.

To my fellow Board members, thank you for your support during the year – your experience and expertise are always valued.

Tony Phillips
Chairman

3 March 2015

Chief Executive Officer’s Report

The rand was 12.4% weaker versus the US dollar compared to 2013, improving the relative competitive position of our manufactured products compared to imported substitutes.

In the Paper business, low economic growth may have contributed to lower waste paper collections, the effects of which were exacerbated by increased exports from South Africa. The resulting imbalance in supply and demand led to the price of waste paper, a key raw material, escalating well in excess of inflation during the year.

Other significant input cost increases included containerboard, electricity and wages. Apple and pear exports, a meaningful sector for our Paper business, were also severely affected by adverse weather early in the season, the effect of which was only partially offset by growth in other fruit exports.

Notwithstanding these factors, the overall Paper business results were satisfactory.

The Plastics business realised good volume growth in certain sub-sectors such as bins, crates, preforms and closures. This, combined with a number of other successful interventions, resulted in an encouraging increase in operating profit for the period.

In July 2014, six of our plastics converting operations were affected by a four-week-long, industry-wide strike related to wage negotiations. Through various interventions during the remainder of the year the financial effects directly attributed to strike were limited to R6 million.

THE YEAR IN PERSPECTIVE

I am pleased to report that Mpact was able to show progress on many fronts during 2014 despite subdued markets and other industry-wide challenges. These included industrial action across certain sectors, escalating input costs and a highly-competitive trading environment.

There is no doubt that our ongoing focus on implementing our strategy, whilst specifically prioritising customer retention, cost control, capacity and working capital management, contributed to the Group’s good results for the year ended 31 December 2014.

During the year we continued to commit capital investment to enable us to deliver sustainable returns and meet our customers’ requirements. To this end we approved over R1 billion for strategic capital projects, which progressed according to plan.

In light of operational requirements and the need to remain competitive, we closed the FMCG plastics factory in Robertville, Gauteng during November 2014. This regrettably resulted in the retrenchment of 62 employees. The Group explored viable and sustainable alternatives for the various production lines, resulting in the relocation of 35 employees to other Plastics operations. The closure is not expected to have a major impact on customers in the FMCG sector; however, the Group's overall performance is expected to reflect the benefits of this restructure going forward.

Polymer prices did not reflect the decrease in oil prices which materialised during the second half of the year but are expected to do so during 2015.

FINANCIAL OVERVIEW

Revenue of R8.6 billion was 11.9% higher than the comparable prior year, driven by higher average selling prices and the inclusion of Detpak, which was acquired in September 2013, in the full year results.

Underlying operating profit increased by 14.8% to R751 million. Due to productivity gains and other cost savings, the operating profit margin increased from 8.5% to 8.7%. ROCE, a key metric in our business, increased to 18.1% from 17.3% in the prior year.

For the year ended 31 December 2014, special items amounted to R23 million attributable to the FMCG Robertville factory closure costs.

Net finance costs of R121 million were 6.0% above the comparable prior year due to higher average net debt during the year. This was mainly as a result of the funding of large capital projects, as well as higher interest rates.

The effective tax rate of 28.4% was marginally higher than the statutory tax rate of 28.0% due to certain expenses not being deductible for tax purposes. Tax payments of R167 million were made during the year (December 2013: R122-million). As at 31 December 2014, Mpact had recognised tax losses in Group subsidiaries amounting to R263 million (December 2013: R260 million).

Basic and headline earnings per ordinary share for the year were 259.1 cents (2013: 232.5 cents) and 262.7 cents (2013: 233.3 cents) respectively. Underlying earnings per share improved by 15.3% to 269.2 cents per share as a result of the increase in underlying operating profit and higher profits in associated companies, which were partially offset by a higher effective tax rate.

Net debt at 31 December 2014 was R1,303 million, an increase of R187 million from the prior year, after capital expenditure of R701 million and higher working capital.

The Board declared a final gross cash dividend of 66 cents per ordinary share payable on Monday, 20 April 2015. The total dividend for the 2014 financial year amounted to 92 cents, a 15.0% increase from 2013's total dividend of 80 cents per share.

DIVISIONAL REVIEW

The Paper business revenue for the year was up 12.5% to R6.3 billion with external sales volume growth of only 0.9%, which reflects lower agricultural and cartonboard sales. The total converting sales volumes were in line with the prior year with increased exports and Detpak offsetting declines in agriculture boxes. The decline in agriculture sales is attributable to an 18.1% drop in exports of apples and pears. Higher average selling prices are attributable to increases implemented during the last quarter of 2013 to cover input cost escalation. Underlying operating profit increased by 11.9% to R711 million, while the operating profit margin decreased to 11.3% (2013: 11.4%) as a result of the under-recovery of raw material prices during the year under review.

In the Plastics business revenue increased by 10.4% to R2.3 billion, mainly due to an increase of 8.7% in average selling prices, which included a product mix variance, and volume growth of 1.7%. Underlying operating profit was up by 24.7% to R132 million with the underlying operating profit margin also improving to 5.6%.

The Operational Review is set out in detail on pages 34 to 38 of this report.

MANAGEMENT CHANGES

On 13 January 2015 Eskom announced the appointment of our Group Legal Counsel, Viroshini Naidoo, as a non-executive director of their Board with immediate effect. Given the demands of her role in the Group and her desire to pursue broader external interests, Viroshini decided to resign from Mpact with effect from 31 March 2015. On behalf of our Executive Committee I would like to congratulate Viroshini on this prestigious appointment. We also thank Viroshini for her contribution to Mpact and wish her every success in her future endeavours.

Ziyaad Carrim was appointed as Head of ICT with effect from 1 December 2014.

OUR STRATEGY

The three key pillars of our business are our leading market positions, our customer-focused operating structure and our focus on performance.

Our strategy is set out in detail on page 11 of the report. We will continue looking for opportunities to generate new business and grow our market positions in key products and geographical areas.

We will also continue to consider acquisitions and projects where we are able to find value and strategic fit, and significant time and effort has already gone into evaluating opportunities for growth both locally and in the rest of Africa.

We will remain closely focused on meeting and exceeding our customers' needs and on strengthening our relationships with them. To this end we continue to invest in our existing operations and our geographic footprint.

Finally, we will strive to ensure that our interventions and investments deliver sustainable returns for our shareholders. In dealing with this latter matter, our Sustainability Policy, Code of Ethics and the Supplier Code of Conduct provide a blueprint for our employees, suppliers and partners to follow so that there is no ambiguity in our expectations.

We remain confident in this strategy and will continue to work diligently to meet our objectives in the year ahead.

OUTLOOK

The Group's two major capital projects, the R765 million-upgrade of the Felixton Mill near Empangeni in KwaZulu-Natal and the R350 million recycled PET plant in Gauteng, are progressing according to schedule and within budget. Commissioning of the first phase of the Felixton Mill rebuild is scheduled for mid-year and the recycled PET project is scheduled to be commissioned during the second half of 2015. The final phase of the Felixton rebuild is scheduled for completion during 2017.

We are expecting growth to remain subdued in our markets for the foreseeable future. Nevertheless we do anticipate some benefits to flow from the lower oil price and growth in fruit exports.. The restructuring of the FMCG plastics business should also provide some benefit during 2015.

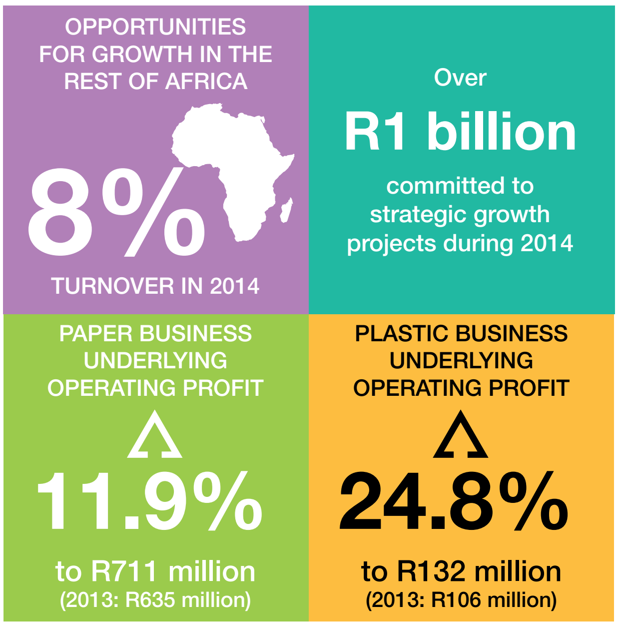
Uncertainty exists regarding continuous electricity supply from Eskom and it is difficult to predict the full effect of load-shedding on the Group. In the recent past certain operations have experienced load-shedding on a number of occasions. In our non-continuous operations it is often possible to make up lost time utilising overtime and spare capacity, albeit at a higher production cost. However, this is not possible in the Group's continuous operations such as the paper mills. The Group has interventions in place to reduce the effects of load-shedding and as part of our risk management programme, more detailed contingency plans are being developed for the unlikely event of prolonged outages countrywide.

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 17 to 19 of this report and the Risk Management Review can be viewed on our website, www.mpact.co.za.

SAFETY AND HEALTH

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

Additionally, the Group continues to emphasise the importance of safety through the "Hearts and Minds" programme and other initiatives aimed at preventing accidents and unsafe incidents. Despite these efforts the Group suffered 13 lost time injuries during 2014 (2013: 8) resulting in a Lost Time Injury Frequency Rate (LTIFR) of 0.21 (2013: 0.13).



PROPOSED B-BBEE INITIATIVE

On 4 March 2014 we announced our intention to implement a B-BBEE ownership transaction through Mpact Limited's wholly-owned subsidiary, Mpact Operations Proprietary Limited, in terms of which it is anticipated that a B-BBEE trust (the Mpact Foundation Trust) will subscribe for 10% of the ordinary issued shares in Mpact Operations.

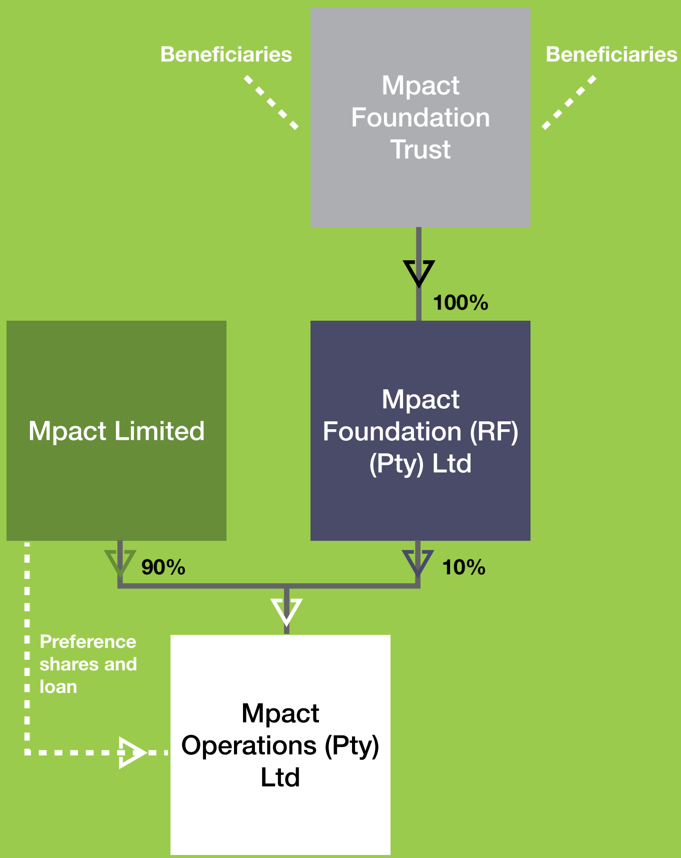
On 1 January 2015, Mpact Limited consolidated its South African operating assets under Mpact Operations. The consolidation of the South African operating assets facilitates the implementation of the B-BBEE transaction.

Since the exit by the our previous B-BBEE partner, Shanduka Packaging Proprietary Limited in October 2012, the Board has been considering various options to re-introduce B-BBEE ownership into the Group. The resolution by the Board confirms our commitment to broad-based empowerment in South Africa, especially in the communities within which we operate.

The objectives of the proposed transaction are to pursue true empowerment of previously disadvantaged stakeholders with a focus on broad-based groupings; create a sustainable funding structure; and complement existing B-BBEE initiatives whilst preserving existing value for current shareholders and materially improving our B-BBEE ownership credentials.

The trust beneficiaries will include our employees and their families; emerging entrepreneurs, suppliers and customers directly or indirectly involved in the packaging and/or recycling sectors; primary, secondary and tertiary education initiatives; other individuals, groups of people or entities that operate within the communities in which the Mpact Operations Group operates or are identified by the trustees from time to time.

We view the proposed transaction as a flagship empowerment initiative and look forward to not only continuing with our existing B-BBEE projects, but also pursuing new empowerment initiatives that make a real difference to people in need.



APPRECIATION

I would like to thank the members of our Board for their invaluable commitment, support and guidance during the year. The loyalty and contribution by my fellow Exco members and all Mpact employees played a crucial role in the Group's performance and development for which I am also most grateful. Finally, my thanks go to our customers, suppliers, advisers and other business partners for their ongoing support of Mpact.

Bruce Strong
Chief Executive Officer

3 March 2015