

PERFORMANCE REVIEW

SUMMARY OF INTEGRATED PERFORMANCE AND SIX CAPITALS MODEL

Mpact is committed to sustainability principles, which underpin 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 effect this, Mpact focuses on three key elements of sustainability – economic, social and environmental.

While this report primarily deals with the Group's financial performance, the Group's Sustainability Review (available on 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.

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

Mpact's integrated business model

Mpact's business model strives to realise its vision of being a leading business with the highest ethical standards and delivering exceptional value for all its stakeholders by incorporating the Six Capitals as defined by the International Integrated Reporting <IR> Framework.

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Business Model

INPUTS

FINANCIAL CAPITAL

- Debt
- Equity including retained profits
- Grants and other incentives

MANUFACTURED CAPITAL

- Plant and equipment
- Manufacturing facilities
- Recycling infrastructure

INTELLECTUAL CAPITAL

- Patents
- Institutional know-how
- Copyrights and licences
- Information Systems

HUMAN CAPITAL

- Training programmes
- Employee engagement initiatives – Imbizo's; in-house magazines
- Incentive schemes
- Health and safety interventions
- HIV programmes

SOCIAL AND RELATIONSHIP CAPITAL

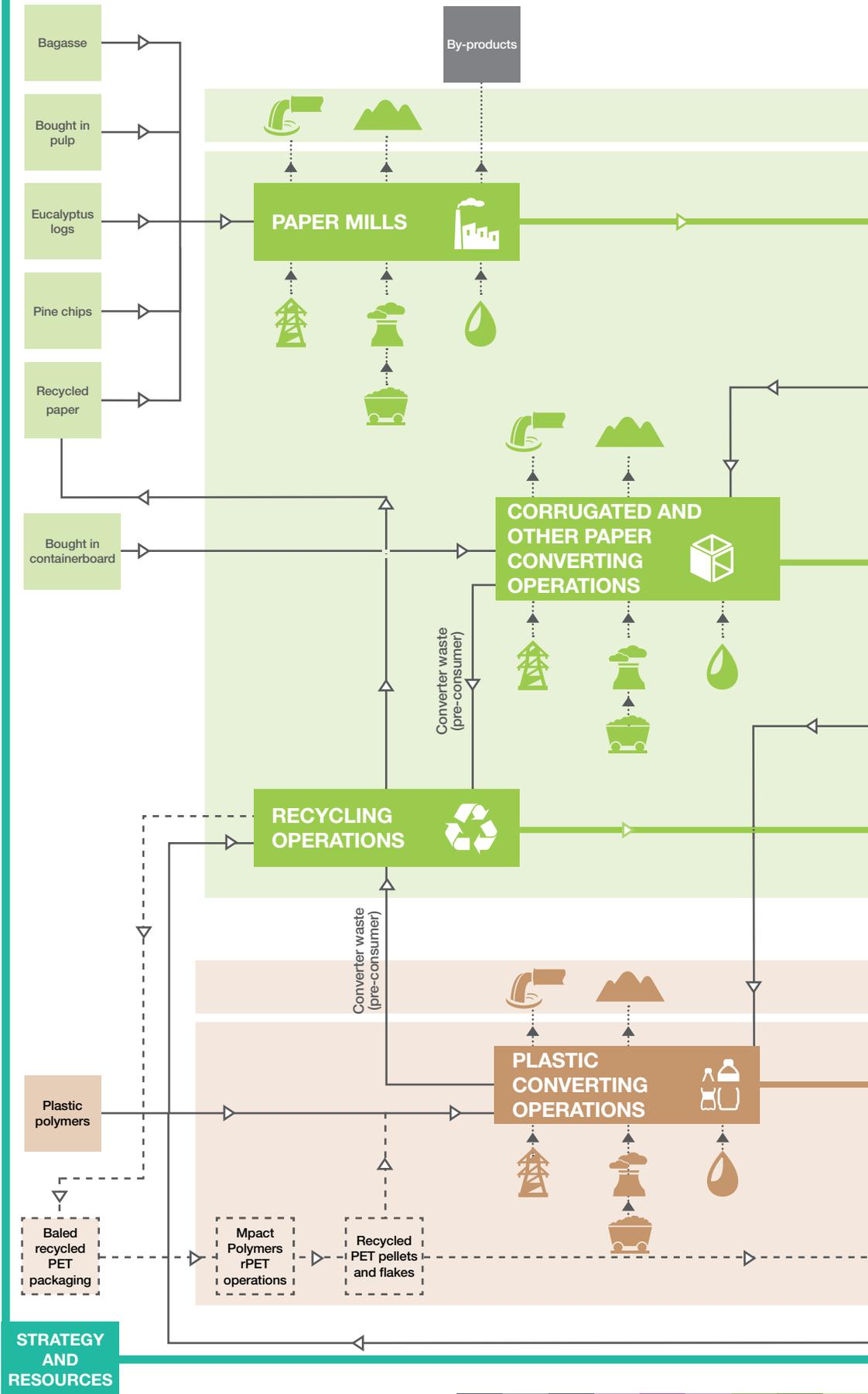
- Culture and values
- Community projects and involvement
- Suppliers

NATURAL CAPITAL

- Air
- Water
- Land
- Energy sources

MISSION AND VALUES

OPPORTUNITIES AND RISKS

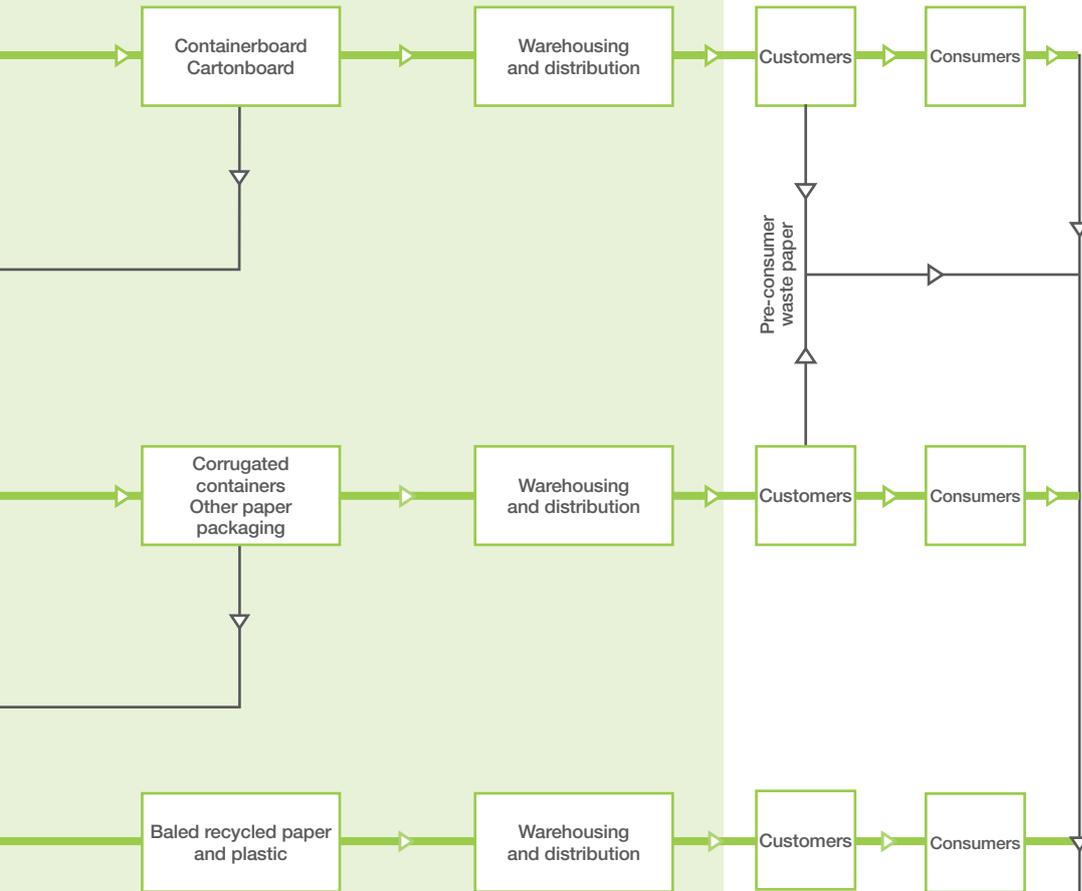


GOVERNANCE

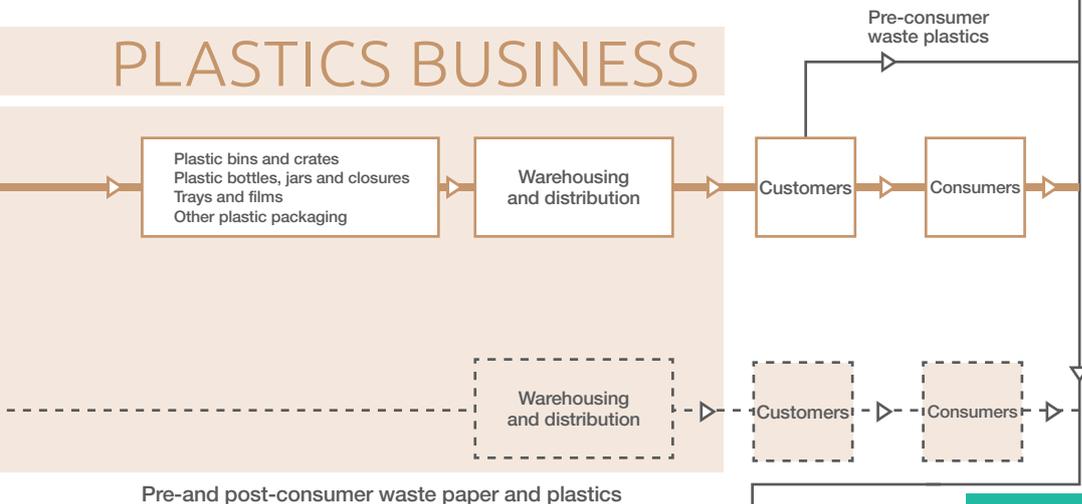
FUTURE OUTLOOK



PAPER BUSINESS



PLASTICS BUSINESS



PERFORMANCE

OUTPUTS

FINANCIAL CAPITAL

- Profits for distribution to shareholders and reinvestment
- Financial reports
- Tax payments

MANUFACTURED CAPITAL

- Corrugated and other paper packaging
- Containerboard, cartonboard and waste paper sales
- Plastic bins and crates
- Plastic bottles, jars and closures
- Trays and films
- By-products
 - Chemicals, sodium sulphate and recyclable waste (paper and plastics) and biomass
- Distribution

INTELLECTUAL CAPITAL

- Brands
- Patents
- Goodwill
- Sustainable competitive advantage
- Reputation

HUMAN CAPITAL

- Motivated and skilled workforce
- Diversity

SOCIAL AND RELATIONSHIP CAPITAL

- Good stakeholder relations
- Supportive communities where lives are enhanced by our presence
- Community projects and involvement
- Ethical leading business

NATURAL CAPITAL

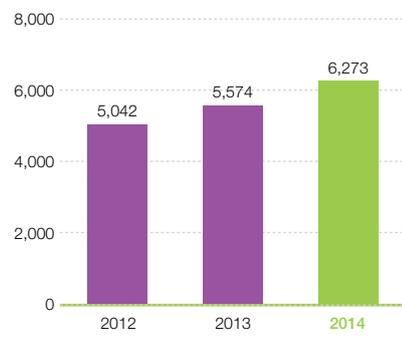
- Beneficiation of recyclable raw materials
- Emissions
- Water
- Generated electricity

Operational Review

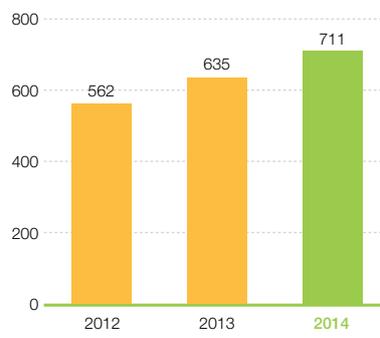
PAPER BUSINESS

FINANCIAL HIGHLIGHTS

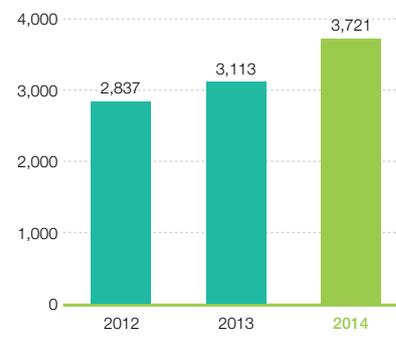
Revenue R'million



Underlying operating profit R'million



Operating assets R'million



ACTIVITIES

Mpact's seven recycling operations around the country recovered 450,277 (2013: 451,000) tonnes of paper in 2014. Recovered paper sources include pre- and post-consumer material sourced from a multitude of paper collection programmes.

Subdued economic growth, possibly exacerbated by increased waste paper exports, may have contributed to the decline in the Group's collections in 2014. Seventy-three percent of the recovered paper was consumed internally for packaging and industrial paper, 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. Relevant statistics in this regard can be found on pages 12 and 13 of this report.

In anticipation of the commissioning of the new R350 million Mpact Polymers PET recycling facility, scheduled for completion during the second half of 2015, Mpact's recycling operations have begun recovering used PET, mainly in the form of bottles. The collected bottles will be sorted and baled by Mpact Recycling and subsequently sold to Mpact Polymers, which forms part of the Plastics business.

Mpact has three 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.

Approximately 28% of the products manufactured by the Group are consumed internally by Mpact's corrugated and converted paper products business in the production of corrugated board.

The balance is sold to other converters. 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 the 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, discussed in detail in the case study to this section, will eliminate the mill's dependence on bagasse.

All three mills carry the ISO 14001 and ISO 9000 accreditation as well as 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 reuse 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.

The top 10 external paper manufacturing customers represented approximately 69% (2103: 59%) of paper manufacturing external sales in 2014, with around 10% (2013: 7%) of the products produced being exported, mainly to other African countries.

The corrugated and converted paper products business manufactures premium quality corrugated packaging products, provides high-graphic printing capabilities and most recently, converted paper products primarily for the QSR sector.

The business has maintained its leading market position through regular improvements to the products it supplies and by focusing on investments in modern technology, training and customer relationship management. It comprises 13 converting plants, nine in South Africa, one in Mozambique and two in Namibia. On 31 December 2014, Mpact acquired a 51% interest in Pyramid, a paper bag and sacks manufacturing plant in Gaborone, Botswana and this is the 13th site.

Included in this business is 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. As mentioned, Pyramid manufactures paper bags for maize products, sugar and flour, as well as sacks for charcoal and cement.

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, while converted paper product customers are mainly in the QSR industry.

The top 10 corrugated packaging and converted paper products customers represented approximately 26% (2013: 29%) of the external corrugated packaging and converted paper products sales in 2014.

RESULTS FOR 2014

The Paper business posted revenue growth of 12.5% to R6.3 billion, underlying operating profit growth of 11.9% to R711 million while the operating profit margin decreased slightly to 11.3% as a result of the under-recovery of raw material prices, most notably waste paper and purchased containerboard. 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 the 18.1% drop in exports of apples and pears.

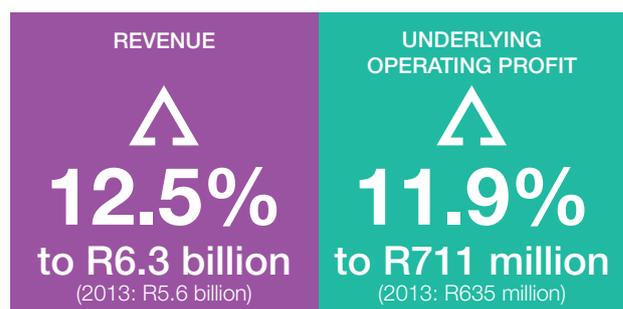
The recycling operations performed well and were able to maintain fibre supply to the paper mills despite the competitive environment. The paper mills delivered a solid performance given the constrained market conditions and downtime as a result of interruptions to power supply. Notwithstanding this, the Felixton Mill had a record production year with the Piet Retief and Springs Mills' production meeting expectations.

The corrugated and converted paper products business' results were impacted by the decline in agricultural sector volumes, specifically apples and pears, as a result of poor climatic conditions in the Western Cape. Through cost savings and efficiency improvements as a result of the investment in new converting equipment in three plants and stringent cost control, the effect on profit of the loss in volumes was offset. Saleable production of 423 million m² of corrugated packaging was achieved in 2014 (2013: 432 million m²). The combined sales of recycled containerboard and cartonboard for the year ended 31 December 2014 was 416,325 tonnes (2013: 415,950 tonnes).

STRATEGY AND OBJECTIVES

The recycling business plays an essential role in the paper packaging value chain as it allows for input cost management and security of supply for the paper manufacturing business. As mentioned, Mpact has started to implement its strategy of expanding its recycling operations into plastic recycling. The paper recovery rate in South Africa was 62% in 2013 (2012: 59%), well ahead of global recovery rates of 56%. Despite a drop-off in paper collections in 2014 due primarily to the subdued economy and the pursuant decline in consumer spending, there are still growth opportunities in the recycling business, with parallel advantages to the environment.

Through ongoing investment in plant and equipment by the corrugated and converted paper products business as well as the paper manufacturing business, Mpact strives to maintain its leading market positions through the improvement of both quality and design of products, systematically increasing production efficiency as well as improving the impact on the environment.



The Felixton Mill upgrade project



The Felixton Mill, situated near Empangeni on the KwaZulu-Natal North Coast, was established in 1953. Since then it has been transformed through several phases of development and investment. The mill currently produces containerboard for local and export markets utilising waste paper and bagasse, a fibre residue of sugar cane, as primary raw materials.

It is currently being transformed through a R765 million investment aimed at producing advanced lightweight containerboard to cater for the increasing demand for packaging weight reduction. In addition to the enhanced product offering, this significant investment in the latest paper machine technology and machinery will improve the mill's overall competitiveness, with significant improvements expected in energy and operational efficiencies. On completion of the project the mill will no longer utilise bagasse fibre in its products.

The upgrade, which is scheduled to be completed by the end of 2017, will also result in a 60,000 tonne increase in the mill's design capacity to 215,000 tonnes.

Over the past two decades the Felixton Mill has done a tremendous amount of work to reduce its environmental footprint, with the following achieved since 1995.

Parameter	% reduction
Total energy	36
CO ₂	39
Total water	66
Total suspended solids (Wastewater)	81
Solid waste	76

RISK AND SUSTAINABILITY

Specific risks and opportunities

The overall key risks and opportunities for the Group are set out pages 17 to 19 of the Integrated Report.

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

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, such as Pyramid.

	Material risks	Management of these risks
	Source of recovered paper declining	<ul style="list-style-type: none"> • Retaining market position as the leading paper recycler in South Africa and preferred buyer of recovered paper
	Imported product as well as competitor expansion creating over-capacity in the local market	<ul style="list-style-type: none"> • Investing in Mpact's plants and equipment to improve the quality of products, flexibility and capabilities
	Eskom power supply outages resulting in lost working hours and supply shortages	<ul style="list-style-type: none"> • Ongoing communication with Eskom and municipalities • Working different shifts to manage capacity
	Economic and competitive influences on sectors and consumers outside of Mpact's control	<ul style="list-style-type: none"> • Consistently delivering smarter, sustainable solutions to customers

Awards

During the year, the corrugated and converted paper products business won two awards from Famous Brands, being voted both "Supplier of the Year" as well as "Packaging Supplier of the Year", a fantastic accolade from one of South Africa's most prestigious QSR brand management companies.

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. Included in the review are product initiatives and accreditations of all the manufacturing operations.

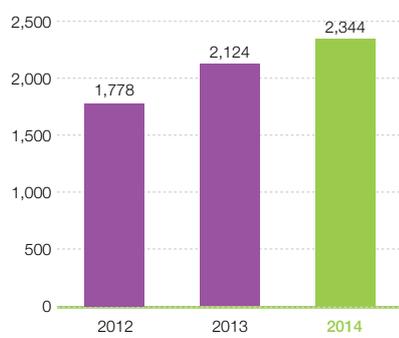
Industry associations

- 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

PLASTICS BUSINESS

FINANCIAL HIGHLIGHTS

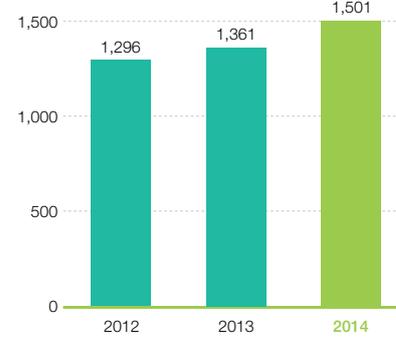
Revenue R'million



Underlying operating profit R'million



Operating assets R'million



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. As previously mentioned, the Plastics business now also includes Mpact Polymers for the recycling of PET.

Manufactured products include:

- PET preforms, bottles and jars;
- closures for carbonated soft drinks and water;
- plastic jumbo bins, environmental wheelie bins, plastic pallets and 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.

During 2014, Mpact converted 89,198 tonnes (2013: 89,912 tonnes) of plastics, including 1.3 billion (2013: 1.3 billion) preforms, jars and PET bottles.

The Plastics business has two sites, in Paarl, Western Cape, and in Harare, Zimbabwe which produce styrene trays, fast food containers and clear plastic films. PET trays are produced at the Paarl site, as well as in Alberton on Gauteng's East Rand. 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 in the Western Cape and Brits in Gauteng.

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

As previously mentioned, the plant in Robertville, East Rand (Gauteng), was closed down in light of operational requirements and the need to remain competitive. Discussions with employees and their union representatives regarding the closure regrettably resulted in the retrenchment of 62 employees. The Group explored viable and sustainable options for both the blow moulding and the injection blow moulding departments of the factory and as a result 35 people were transferred to other Plastics operations. The closure is not expected to have a major impact on customers in the FMCG sector, but will contribute positively to the Group's overall performance going forward.

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

The top 10 plastics customers represented 36% (2013: 36%) of the Plastics business' sales in 2014.

Mpact Polymers

The PET recycling plant in Wadeville is progressing well and is scheduled to be commissioned during the second half of 2015. The newly-formed company is owned by Mpact (79%) and the IDC (21%). The plant will process about 29,000 tonnes of recycled PET waste a year, generating 21,000 tonnes of recycled PET, and saving some 180,000m³ of landfill space each year.

RESULTS FOR 2014

In the Plastics business, revenue increased by 10.4% to R2.3 billion, underlying operating profit was up by a satisfactory 24.8% to R132 million with the underlying operating profit margin also improving to 5.6%. Sales volumes measured in tonnes were 1.7% higher than the prior period, with good volume growth in bins, crates, preforms and closures partially offset by a decline in the FMCG business, which was down 12.4% due to rationalisation. Trays and films volumes were in line with the prior year despite subdued market conditions. Average prices in plastics increased by 8.7%, only partially offsetting higher polymer prices, which continued to escalate during the first half of the year but levelled out in the second half. The industrial action was most felt in the Plastics business, where the direct financial cost of the industry-wide strike, that affected six operations, was reduced to approximately R6 million by year end through various interventions. During November 2014, the loss-making Robertville FMCG Plastics' operation was closed, with certain lines relocated and others decommissioned. This formed part of the broader restructuring of the FMCG business aimed at addressing changing operational requirements and improving competitiveness. The total cost of R23 million associated with the closure has been disclosed as a non-recurring special item.

STRATEGY AND OBJECTIVES

The potential for growth in the Plastics business continues as producers continue to substitute packaging materials such as glass and metals with rigid plastics.

The rationale behind the establishment of Mpact Polymers is to beneficiate plastic waste streams in an economically viable manner. It is anticipated that this will be achieved utilising Mpact Recycling's extensive network to collect, sort and bale waste plastics which will then be processed by Mpact Polymers into reusable raw materials. These raw materials will then be used in the production of new plastic packaging products such as those produced by Mpact's plastics converting operations.

Mpact continues to assess acquisition and growth opportunities in this sector, organically and through optimisation and new projects, such as the PET recycling plant project.

RISK AND SUSTAINABILITY

Specific risks and opportunities

The overall key risks and opportunities for the Group are set out pages 17 to 19 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 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"> Strong supplier relationships Continuous market monitoring and proactive pricing
	Multinational FMCG plastic container manufacturers entering the local market	<ul style="list-style-type: none"> Enhance competitiveness through optimisation programmes and investment Exploring alternative product offerings Investigating cross-border opportunities
	Eskom power supply outages resulting in lost working hours and supply shortages	<ul style="list-style-type: none"> Ongoing communication with Eskom and municipalities Working different shifts to manage capacity

Opportunities

- Investment in Mpact Polymers, a plastic recycling process plant to produce rPET.
- Acquisition and other expansion opportunities.
- Additional exports into the rest of Africa.

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. Included in the review are product initiatives and accreditations of all the manufacturing operations.

Industry associations

- PETCO
- Plastics SA
- Polystyrene Packaging Council

