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STRATEGIC OVERVIEW

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STRATEGY AND OBJECTIVES

Mpact's strategy comprises three core pillars supported by key principles that aim to create value for stakeholders over the long term.

THE CORE PILLARS OF OUR STRATEGY ARE:

LEADING MARKET POSITIONS

We aim to develop and selectively grow our leading market positions in rigid plastics, paper-based packaging and packaging paper in sub-Saharan Africa. We will grow by extracting value through business and operational management expertise as well as product application, design and market knowledge.

CUSTOMER-FOCUSED

We will further develop our established manufacturing and service footprint to deliver superior solutions to our customers, underpinned by:

- A decentralised structure reflecting management depth and experience at all levels.
- Innovative customer-focused product offerings.
- Leading market positions that enable us to achieve sustainable cost-effectiveness through economies of scale.

FOCUS ON PERFORMANCE

We will focus on performance through effective business excellence programmes and sound asset management, enabling us to sustainably:

- Provide our customers with quality products and services worth their price.
- Retain a motivated and skilled workforce.
- Deliver good returns to our shareholders.



The key principles underlying each strategy pillar are expanded upon in the following table:



LEADING MARKET POSITIONS

Scale

- Maintain leading market positions in chosen geographies with scale to enable competitiveness at a decentralised level
- May consider entry below leading market position but always considering sectors where there is potential to lead in future

Capability

- Invest in sectors where Mpact has sustainable competitive advantages or at least has the prospect of developing them

Products and geographies

- Rigid plastics and paper-based packaging in sub-Saharan Africa



CUSTOMER-FOCUSED

Decentralised structure

- Customer-centric
- Responsive
- Accountable
- Flexible
- Effectively execute differing strategies or even hybrids across business units

Innovation and capability

- Applied to products and processes internally and externally
- Use of own R&D capabilities where feasible
- Investing to meet new and emerging demands of customers with good returns

Intimate understanding of the Value Chain

- Engage customers and other stakeholders to improve supply chain efficiency and anticipate changing requirements
- Product specification bodies, marketing and branding people, key distribution networks
- Make partnerships work



FOCUS ON PERFORMANCE

Financial returns

- ROCE and profitable growth
- Disciplined capital allocation and spending
- Re-investment and capital allocation based on track record
- Stringent and continuous cost management
- Long-term view of investments
- Effective risk management and governance

Skilled and motivated people

- Invest in support of management with a track record
- Reward performance and results and appreciate effort
- Commit resources to proactive training and development of staff
- Safety

Sustainable practices

- Responsible environmental management
- Contributing to social upliftment in the areas in which we operate
- Rigorously pursuing the highest ethical standards in governance

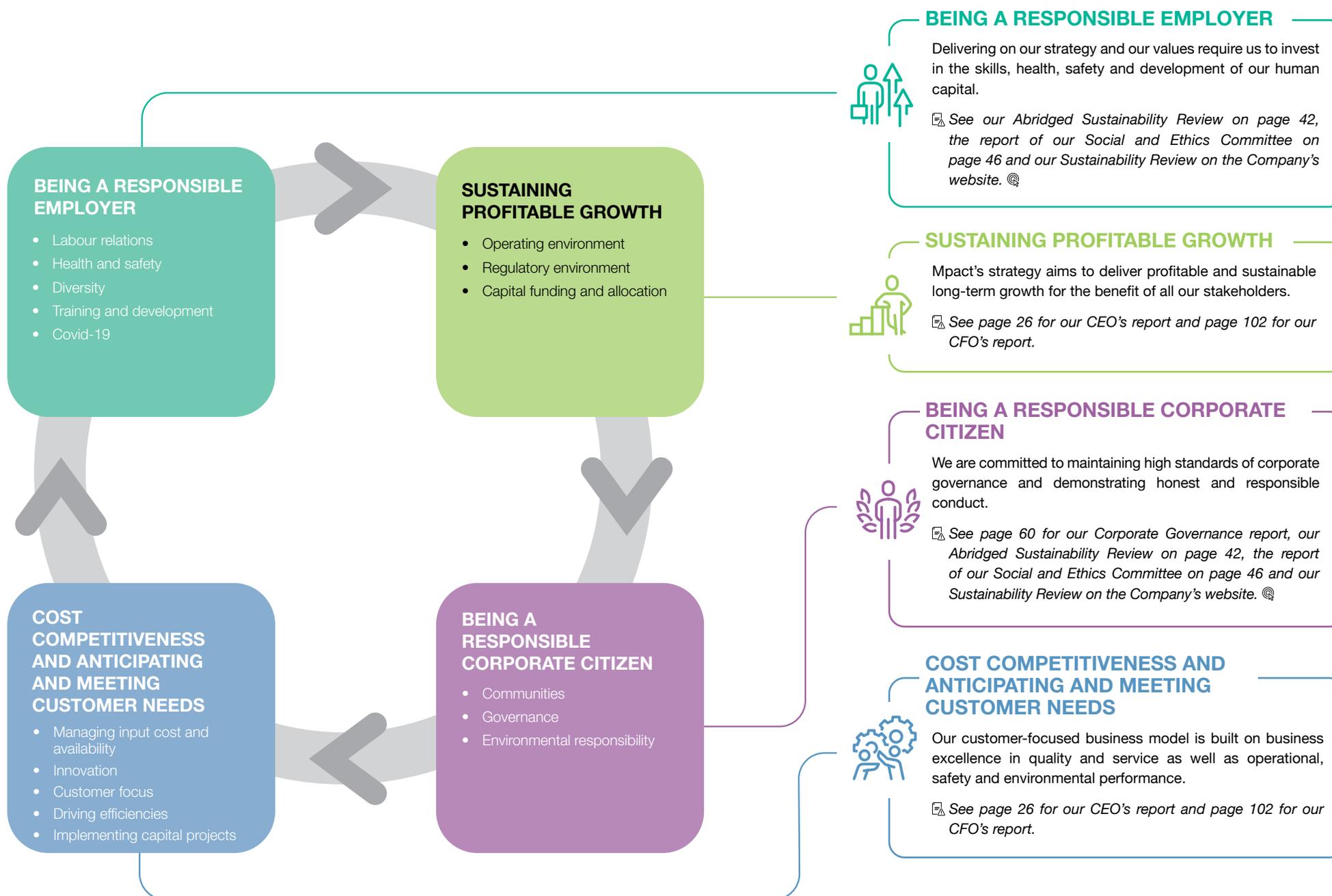
FIVE-YEAR PERFORMANCE HISTORY

		2020	2019 Restated*	2018	2017	2016
Profit performance						
Revenue	R'm	11,097	11,076	10,543	10,120	10,099
Underlying operating profit	R'm	631	724	751	457	784
Underlying profit before tax	R'm	471	494	571	274	617
Underlying earnings	R'm	340	328	421	283	420
Financial position						
Total assets	R'm	8,028	8,425	9,879	9,182	8,712
Total equity	R'm	3,913	3,747	4,529	4,243	4,021
Total liabilities	R'm	4,116	4,678	5,350	4,939	4,691
Total operating assets	R'm	7,175	7,658	8,770	8,420	7,996
Cash flow information						
Net cash from operations before working capital	R'm	1,204	1,344	1,218	1,019	1,275
Working capital inflows/(outflows)	R'm	665	(357)	(235)	6	(289)
Capital expenditure	R'm	(518)	(592)	(534)	(856)	(836)
Ratio and statistics						
Underlying operating profit margin	%	5.7	6.5	7.1	4.5	7.8
Basic EPS (loss)	cents	188.6	(443.7)	224.8	162.1	234.6
Underlying EPS	cents	200.6	191.8	247.7	166.3	252.7
Basic HEPS	cents	196.1	185.8	235.3	164.5	242.0
Total dividend per share	cents	–	60	70	55	95
Net asset value per share	cents	2,377	2,162	2,613	2,474.5	2,386.3
ROCE	%	11.4	11.8	11.9	7.7	14.2
Current ratio	times	2.1	2.4	1.3	1.3	1.4
Interest cover (underlying EBIT)	times	3.7	3.0	3.6	2.3	4.1
Gearing	%	26.6	38.2	27.9	34.8	33.6
Stock Exchange statistics						
Market value per share						
– at year-end	cents	1,385	1,490	2,101	2,440	2,825
– Highest (year to 31 December)	cents	1,900	2,940	2,910	3,500	5,499
– Lowest (year to 31 December)	cents	111	1,101	1,930	1,720	2,200
Closing PE ratio	times	7.1	8.0	8.9	14.8	11.7
Market capitalisation – close	R'm	2,280	2,552	3,641	4,184	4,760
Volume traded (year to 31 December)	'000	122,473	66,490	59,660	83,250	84,386
Weighted number of shares	'000	169,322	171,030	170,785	169,746	166,735
Issued shares at 31 December	'000	164,639	173,305	173,305	171,462	168,485

* Restated to exclude Mpack Polymers, which ceased trading in 2019.



MATERIAL MATTERS SUMMARY



CHAIRMAN'S REPORT



Tony Phillips

The South African economy was already in a poor state at the start of the year. The country was in recession, load shedding continued to disrupt production, policy clarity in key areas remained in short supply and the parlous condition of state-owned enterprises represents a further drag on the economy.

The devastating impact of Covid-19 is by now clear to everyone. Outside of the shock to Mpac's employees and the revised working protocols required to ensure their health and safety, the impact on consumers and our customers was significant. This was evident in low levels of local and international demand for the paper and packaging we produce, and seen in declining prices for paper and recycled fibre.

ENABLING THE CIRCULAR ECONOMY

Covid-19 has challenged us all to do things differently, from engaging with each other in new ways to increasing safety awareness in the workplace, collaborating with our customers to overcome new obstacles and working with other stakeholders to provide relief to the most vulnerable. During lockdown, images circulated of nature returning in unexpected ways as a result of the almost complete stop in economic activity. As the world recovers, it is critical that we retain an awareness of the vulnerability of the ecosystems around us and ensure that we play our part in minimising our environmental impact.

Mpac's integrated business model plays a significant role in this regard. Mpac Recycling's buy-back centres provide an opportunity for small and micro-enterprises to earn an income and create jobs by collecting recyclable waste. Recyclable waste paper and plastic that would otherwise be lost to landfill provide feedstock to our paper mills, liquid carton recycling operation and bins and crates business. Where we do not recycle the waste ourselves, we sell it to other recyclers, giving effect to the circular economy, reducing waste to landfill and supporting the global drive to reduce plastic waste.

The Extended Producer Responsibility (EPR) regulations currently being drafted are a welcome development that drive a more responsible approach to paper and packaging that will promote waste recovery, reuse and recycling. Packaging can be made from a range of materials, some of which have high recyclability, such as paper, cardboard, certain plastics and PET. Combining recyclable materials with innovative design can create a balance between product protection, consumer safety, logistical considerations and environmental responsibility. We hope that the new EPR regulations will catalyse a deeper commitment from South African business to recyclable and environmentally responsible packaging over cheaper single use alternatives.

GOVERNANCE AND VALUE CREATION

Management's sensible, conservative and disciplined approach was the reason that the Group weathered the crisis as well as it did. As an essential service in the supply chain, Mpac operations largely continued to trade through lockdown, with effective protocols in place to protect our employees. Despite the extremely difficult conditions, the focus on cash preservation and maximising cash flows led to the Group halving its net debt position by year end while retaining jobs and returning value to our shareholders through dividends and a share buyback programme.

The Board's role was to oversee the Group's response to Covid-19 to ensure that it was effective in protecting both the safety and wellbeing of Mpac's employees and the future of the business. During lockdown, the Board was invited to attend the weekly executive management meetings to ensure that we were kept apprised of the latest developments and required responses.



The Board also spent a considerable amount of time considering the impairments recognised in various areas of the business, which flow from our conservative approach.

The principles of effective governance and ethical behaviour are well entrenched in Mpac's governance framework and operational processes. These ensure that the Company conducts its activities in accordance with the Group's values and Code of Ethics. The Board interacts regularly with the executive and receives regular reports from the internal audit function and the whistle-blower facility. We monitor issues raised through these channels along with regular updates regarding insurable or non-insurable incidents as further sources of insight into the Company to further strengthen effective oversight.

Mpac is committed to transformation and the Board recognises and appreciates the value of diversity both in the body of Directors and in the Company. The composition of our Board aligns with our diversity targets and we are pleased that Mpac Operations retained its Level 1 B-BBEE rating for the year.

Mpac's Social and Ethics Committee does an excellent job of overseeing the Company's environmental and social contributions. The Group continues to provide support to vulnerable parts of the society through the corporate social investment and employee volunteering initiatives in the communities around our operations. At a Group level, the bursaries available to the qualifying dependants of Mpac employees through the Mpac Foundation Trust make an important contribution to the lives and aspirations of the bursars.

DIVIDEND

As a result of the extreme uncertainty in the middle of the year and our responsibility to secure the liquidity of the Company, payment of the 2019 final dividend was postponed and no interim dividend was declared. The 2019 dividend was settled in September and

a share buyback programme was initiated to return value to shareholders as the Group's cash position and outlook became more favourable. As at the date of this report a total of R345 million in shares has been bought by the Company.

The Board reviews capital allocation for the Group on an ongoing basis. Given the discount of Mpac's share price to intrinsic value and the strong support received for the share buyback programme at the special general meeting in December 2020, the Board's view is that the substantial share repurchase programme enhances value creation for shareholders over a cash dividend. The Board has therefore resolved not to declare a dividend for the financial year ended 31 December 2020.

OUTLOOK

The short- to medium-term outlook is decidedly uncertain and difficult to forecast. While further waves of Covid-19 seem likely, it appears that society is becoming used to the new way of functioning.

However, the deep underlying weakness in the South African economy will make recovery a slow and extended process. As a critical part in the country's supply chain, Mpac is linked to the state of the general economy. Our focus will remain on best meeting our customers' packaging needs while ensuring that our balance sheet reflects the resilience of the Company. At an operational level, we continue to emphasise efficiency improvements, cost reductions and the profitability of operations.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to acknowledge the incredible efforts of Mpac's management team and employees during an unprecedentedly challenging year and thank them for their commitment and contribution.

I thank my fellow Board members for their contribution and diligence in applying their diverse experience and points of view to lead the Company. We thank our customers for their support during the year and look forward to developing better and more innovative solutions that support the circular economy.

The Board also notes the recent activity in the share register and we welcome our new shareholders.

I would like to close by recognising the critical role played by the waste pickers who make a living from collecting recyclable material that would otherwise go to landfill. These are often among the most vulnerable members of our society and without them the circular economy couldn't happen.

Tony Phillips
Chairman

12 April 2021

CASE STUDY

INNOVATIVE PACKAGING

Packaging that's designed to come back to us.

THE GOAL

To design a range of packaging that leads the way to a circular economy.

THE SOLUTION

Mpact's innovative packaging products are a radical departure from traditional linear thinking. Based on the concept that manufacturers, suppliers, retailers and consumers all share in end-of-life product management, these new products are designed with recycling in mind, to reduce waste and divert recyclables from landfill.

THE RESULTS

72% of our product gets recovered and makes its way back to our paper mills.

In South Africa, total consumer waste amounts to at least 800 million tonnes every year. This is unsustainable and, in fact, should be unthinkable when considering that much of our waste can be collected and recycled or composted at home.

Our solution to this challenge is rooted in the circular economy, which lies at the heart of our innovative packaging. Contrary to the world's overwhelming "take, make, dispose" mentality, we recognise the significant environmental and social impacts of these unsustainable practices and have designed our packaging range for recycling.

After many years of refining and perfecting, we have created a first-to-market solution for packaging that is fully recyclable, saving resources and creating income opportunities in its collection.

It also demonstrates the integrated way in which Mpact works, harnessing the synergies across the many segments in our Group. We use Mpact paper from our Felixton Mill for our paper-based punnets, Mpact Versapak creates recyclable rPET lids and Mpact Recycling captures recyclable material post-consumer use.

We offer two approaches to design and innovation. The first sees us pre-develop solutions based on macro trends and the consumer landscape. The second takes a specific brief from one of our customers and we conceptualise a sustainable solution from that brief. Irrespective of approach, our final products are tested for durability and fit for purpose.

