

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	<ul style="list-style-type: none"> Retain market position as the leading paper recycler in South Africa and preferred buyer of recovered paper. Remade acquisition will benefit Mpack once long-term commitments with existing customers end.
 Imported product as well as competitor expansion creating over-capacity in the local market	<ul style="list-style-type: none"> Invest in Mpack'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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Ongoing communication with Eskom and local municipalities. Work different shifts to manage capacity.
 Economic and competitive influences on sectors and consumers outside of Mpack's control	<ul style="list-style-type: none"> 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 Mpack'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 Mpack'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.

Mpack 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.

Mpack 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.

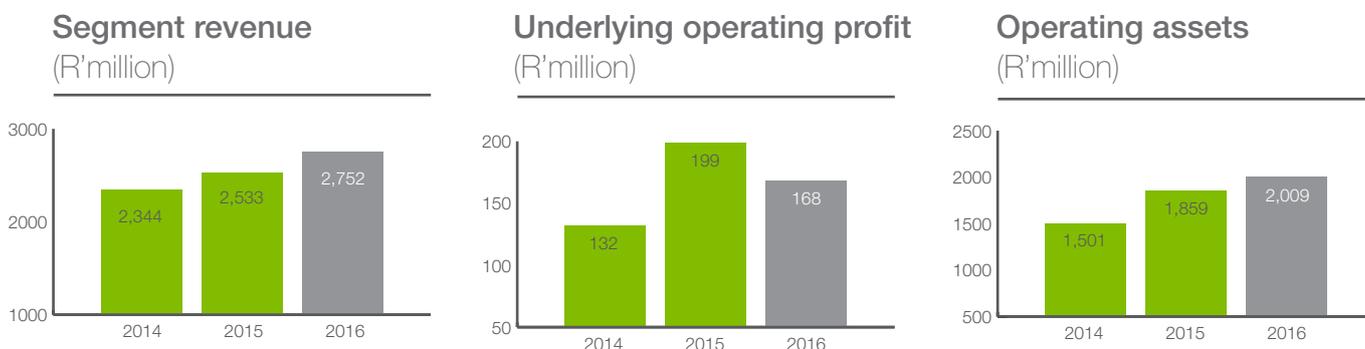
Similarly the paper mills and corrugating operations have invested in technologies to reduce energy consumption of fuels used on site and electricity purchased, thereby reducing reduced greenhouse gas emissions.

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



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 CO₂ 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 Mpack Polymers, the Group is able to offer high quality rPET to its existing and new customers. At full capacity, Mpack 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

Mpack Polymers supply rPET to the Mpack 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

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.	<ul style="list-style-type: none"> • Strong supplier relationships. • Continuous market monitoring and proactive pricing.
 FMCG industry volume decline on the back of consumer spending pressure.	<ul style="list-style-type: none"> • Enhance competitiveness through optimisation programmes and investments. • Explore alternative product offerings. • Investigate cross-border opportunities.
 New plastic manufacturers, international and local, entering the market.	<ul style="list-style-type: none"> • Use of rPET to enhance cost-competitiveness and maintain margins. • Product innovation.
 Power supply outages resulting in lost working hours and supply shortages.	<ul style="list-style-type: none"> • Ongoing communication with Eskom and municipalities.
 Water crisis and CO ₂ -shortage.	<ul style="list-style-type: none"> • Discussions with customers, water authorities and municipalities.
 Tax proposed by Government on sugar-sweetened beverages.	<ul style="list-style-type: none"> • 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.

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 m² 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 Mpack 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 Mpack 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. 

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