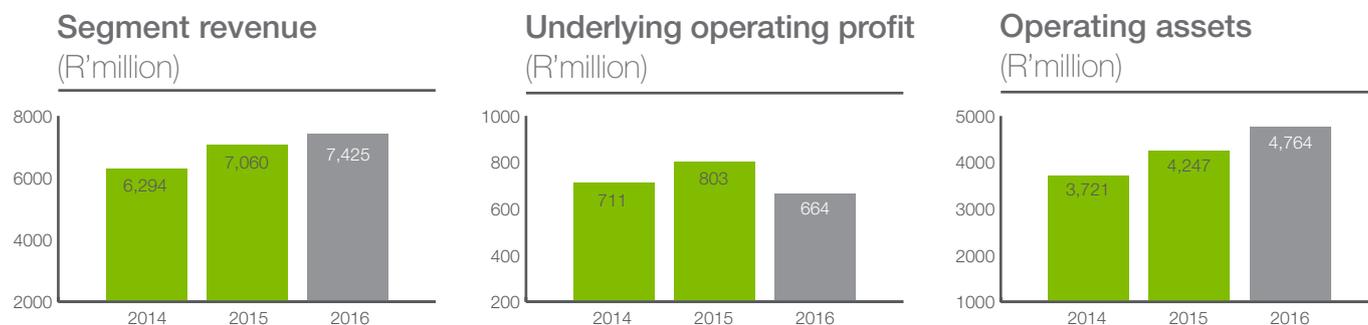


# PAPER BUSINESS

## FINANCIAL HIGHLIGHTS



## 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<sup>2</sup> of corrugated packaging was achieved (2015: 437 million m<sup>2</sup>). 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.