Operational review

Chief Executive Officer's report

The Group is nearing the end of an extensive capital investment programme, which is anticipated to contribute to improved future earnings

From a trading perspective, 2017 was our most difficult year as a Group due mainly to subdued demand and raw material shortages which also impacted costs. Good progress was made, however, in implementing several strategic investments which position the Group well for an uplift in the economy when it eventually comes.

Subdued consumer demand and increased competition experienced during the latter part of 2016 continued through 2017 and reflected in domestic sales across most Mpact businesses. The effects were exacerbated by high recovered paper costs which could not be recouped in selling prices, a shortage of virgin PET during the peak production period, and the drought in the Eastern and Western Cape where Mpact enjoys good market positions in both plastic and corrugated fruit packaging.

While Mpact Polymers' financial performance improved on the prior year with higher throughput, we fell well short of our plan due to a shortage of baled bottles feedstock and operational inefficiencies.

The operational reviews on pages 32 and 38 provide more information on the Paper and Plastics businesses, and the Chief Financial Officers review on page 90 discusses the financial performance and position of the Group.

DELIVERING ON OUR STRATEGY

We continued to make good progress in implementing our strategy during the year. Our capital investments focus on areas where we can sustain or develop leading market positions and during the year these included:

- Commissioning a new R100 million jumbo bin injection moulding machine in the Plastics Containers business.
- Two new closure lines in Plastics Wadeville, a R50 million investment to supply lightweight closures to a major customer in terms of a new contract.
- Commissioning of the final phase of the R765 million rebuild of the Felixton paper mill. The quality of the paper produced has been well received in the market.
- Our R46 million liquid packaging recycling plant in Springs, a major step towards reducing waste to landfill, ensuring good recycled fibre supply to the paper mill and reinforcing our position as the pre-eminent recycler in southern Africa.
- Construction of our new R100 million corrugator in Port Elizabeth, which started production in January 2018, more than doubling our capacity while reducing production cost. This investment supports our fruit customers in the Eastern Cape, who are expanding rapidly.
- During November we commissioned our first 750 kW solar Photovoltaic (PV) plant at our Plastics operation in Paarl. A similar plant is being built at Wadeville and future locations are being considered as part of our Group-wide energy saving management initiatives.

As we near the end of an extensive capital investment programme our focus now shifts to optimising these assets to achieve the planned benefits which include a reduced environmental footprint.

Innovation remains a key differentiator for Mpact as is the service we offer to our clients. We are pleased that Mpact's packaging solutions were recognised with nine awards at the Gold Pack 2017 Awards as well as at the Fta SA Flexographic 2017 Awards.

HUMAN CAPITAL AND TRANSFORMATION

Ensuring the safety, health and wellness of our workforce is a critical concern for Mpact. In line with our aspirational target of zero harm in the workplace, we realigned the safety performance metrics for the year under review to reflect a greater weighing towards the

Serious Injury Frequency Rate which includes both lost time injuries and restricted work cases. The SIFR for the Group improved to 0.60 serious injuries per 200 000 man hours worked compared to 0.63 in the prior year.

We continue to invest in the development of our employees through various skills and management training programmes. Additionally, R2 million of financial assistance was provided to employees for part-time tertiary education which is encouraged across all levels in the Group.

The CEO Imbizos continue to be a valuable opportunity to meet with employees at each operation, offering a chance to discuss the current performance of the Company while gathering valuable insight into the concerns and needs of our employees. These engagements have highlighted the need for companies in South Africa to find ways of supporting employees' broader concerns that affect their wellbeing and their ability to perform. These concerns include access to housing, education for their children, personal security, the cost of transport to and from work, and high levels of personal debt. It is clear that corporate wellness programmes need to be extended beyond primary healthcare to the broader employee concerns and we are implementing measures to this end.

This year the Imbizos included testimonials from parents whose children are on the Mpact Bursary Scheme to raise awareness of the programme and to let our employees know that the dream of providing tertiary education to their children can become a reality. Now in its second year, a further eight students were added to the programme and one left, bringing to 22 the number of dependents of employees supported in their tertiary studies. We see this as a truly transformative programme that can ultimately lead to broader upliftment in previously disadvantaged communities.

Transformation and the sustainability of the business are inextricably linked, and we are committed to improving representivity in our workforce and driving genuine empowerment. One such initiative is Dalisu Holdings which was established in 2016 as previously reported. During the year under review Dalisu successfully commercialised its dust suppression product and further projects are being considered with the support of the Department of Trade and Industry (dti) and the Industrial Development Corporation (IDC). This project is discussed in more detail on page 26.

We acknowledge Government for its appreciation of the importance of recycling and the associated income generating opportunities it provides in communities across the country. Recycling is only viable where there is sustainable demand for recovered products such as that provided by many of Mpact's operations. We appreciate the interest and continued support of the Minister of Environmental Affairs, Dr Edna Molewa, who honoured us with her presence at the opening of Mpact's liquid packaging recycling plant during 2017.

OUTLOOK FOR 2018

While business and consumer confidence have recently improved from the lows of 2017, growth remains subdued and the outlook uncertain. The strength of the rand and lower inflation provide hope for increased consumer spending but this is tempered by factors such as the sugar tax, higher VAT and drought.

The drought in the Eastern Cape and Western Cape remains a concern and its effect on the Group's future performance is uncertain. In the affected regions, we have eight manufacturing operations, 1,786 employees and an annual revenue of R3.3 billion. Conservation efforts over the past two years have resulted in municipal water consumption halving during the first two months of 2018 compared to the 2015 baseline. Contingency plans are in place to provide potable water to staff if necessary.

The Group is nearing the end of an extensive capital investment programme, which is anticipated to contribute to improved future earnings. The most recent investment of R100 million in the new corrugator in Port Elizabeth was successfully commissioned during January 2018. In February the Piet Retief paper mill completed a R60 million upgrade of its paper forming section, which will yield improved quality and entrench its products in the market. During April a new PET extruder and tray thermoforming line will be commissioned, doubling PET tray capacity, which is expected to displace imported products once fully operational.

We expect to see a further improvement in Mpact Polymers during 2018 but at a lower rate than initially planned due to feedstock quality. Certain plant modifications will be implemented this year to effectively process available feedstock.

Recovered paper costs are anticipated to be lower than the prior year and the Felixton paper mill is expected to reach design throughput by year end. Domestic demand for the mill's products is encouraging.

ACKNOWLEDGEMENTS

I would like thank Tony Phillips, our Chairman, and the Board for their commitment and support. I would also like to express my sincere appreciation for the resilience and commitment of our employees and management. To our shareholders, customers, suppliers, advisers and business partners, thank you for your ongoing support.

Bruce Strong
Chief Executive Office

6 March 2018

Executive Committee

Mpact's strong management team has many years of cumulative experience and the in-depth understanding of the packaging industry necessary to deliver against the Group Strategy. The executive committee (Exco) is led by the CEO and is responsible for the execution of the Board-approved strategy and the day-to-day running of the business. It is accountable to the Board in this regard.

EXECUTIVE MANAGEMENT

The Exco comprises Bruce Strong (Chairman), Brett Clark (CFO), Hugh Thompson, John Hunt, Neelin Naidoo, Johan Stumpf and Ralph von Veh. Other senior managers attend the meeting by invitation.

ROLE AND FUNCTION OF THE EXCO

This committee, which meets six times a year, is responsible for the Group's operational activities, developing strategy and policy proposals for consideration by the Board and implementing the Board's directives. The committee has a properly constituted mandate and terms of reference.

Other responsibilities include:

- leading the executive, management and staff of the Group;
- developing the annual budget and business plans for approval by the Board;
- developing, implementing and monitoring policies and procedures, internal controls, governance, risk management, ethics and authority levels;
- monitoring and enforcing good corporate governance practices and the application of the Code of Ethics, as defined and adopted by the Board;
- guiding and controlling the overall direction and control of Mpact, and acts as a medium of communication between business units, subsidiaries and the Board;
- ensuring appropriate co-ordination between Mpact, its subsidiaries and the various business units; and
- ensuring the adequacy of the Group's reporting arrangements.

The Exco has specific key performance areas and targets which are set in line with the approved strategy and monitored by the Board with the assistance of the Remuneration and Nomination Committee.

EXECUTIVE COMMITTEE

John William Hunt (54)

BSc (Eng), MSc (Eng) (University of KwaZulu-Natal)

John has held the position of Managing Director of the Recycling division since May 2011. His previous role was as the Business Manager for Technology Optimisation in the Group. He has served as the Executive Director of the Paper Manufacturers Association of South Africa and has more than 20 years' experience in the paper industry.

Neelin Naidoo (54)

MBA (Herriot Watt University, United Kingdom), FCIS, FCMA

Neelin joined Mpact as the Managing Director of Mpact Plastics on 1 November 2013. Neelin was the CEO of MCG Industries and has over 30 years' experience in the packaging industry. He is a Director of the Packaging Council of South Africa.

Johan Stumpf (50)

BEng (Hons) (Industrial), (University of Pretoria) MBA (Cum Laude)

Johan joined Mpact in October 2015 and is the Managing Director of the Corrugated business. He previously served as Managing Director of the Klein Karoo Group and subsequently as Managing Director of Sundays River Citrus Company, the largest packer and marketer of citrus in southern Africa. Johan's diverse experience also includes six years with SABMiller as production and engineering manager as well as management and executive roles in supply chain management and consulting.

Hugh Michael Thompson (52)

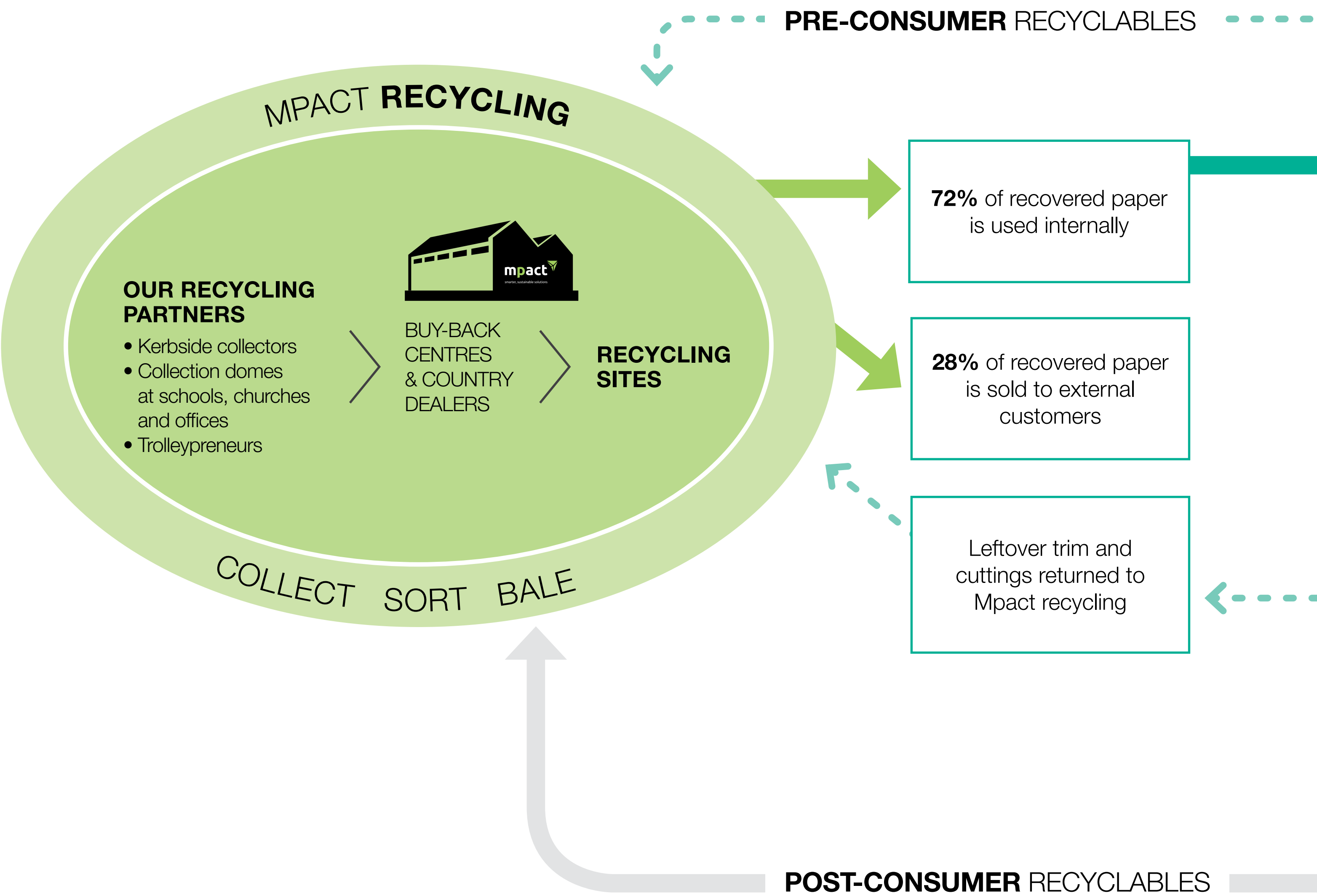
BCom, CTA (University of South Africa), CA (SA)

Hugh has been the Managing Director of the Paper Manufacturing division since October 2009. He fulfilled the role of CFO of Mpact until March 2007 and then the role of Managing Director of the Plastics division until September 2009. He has more than 10 years' experience in the packaging sector. He was previously Senior Vice President (Corporate Finance) for Anglo American South Africa Limited.

Ralph von Veh (66)

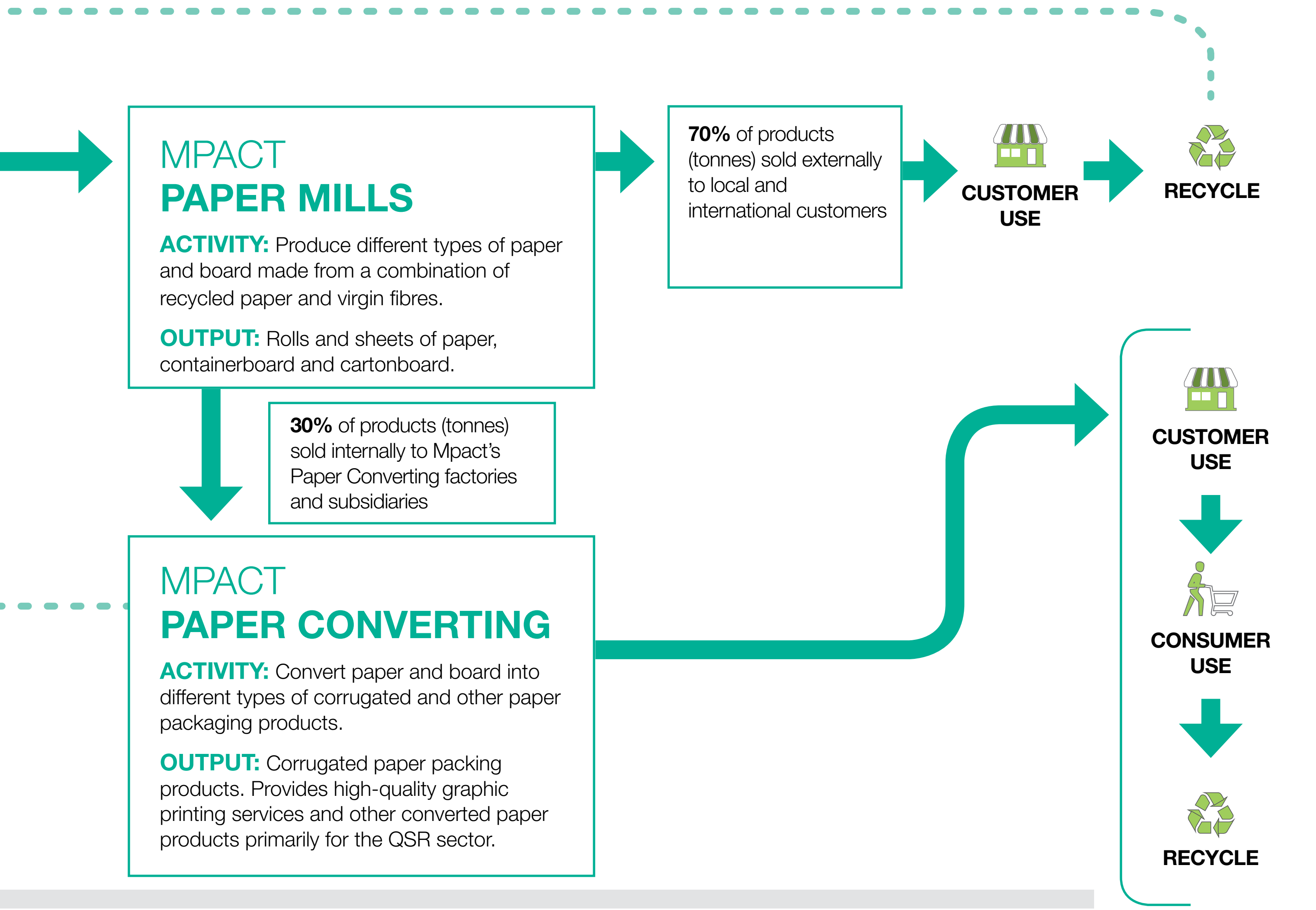
Ralph was the Managing Director of the Corrugated division until 31 December 2015, having been in this position since 1999. Ralph represents Mpact's interests on the boards of various Mpact subsidiaries, including Mpact Polymers, Detpak and associates. Ralph has more than 40 years' experience in the paper and packaging industry.

Paper business



OPERATIONAL ACTIVITIES

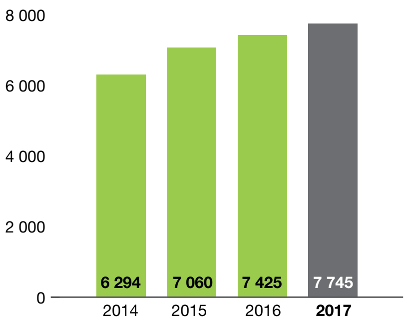
Operation	Location	Activities
Mpact Recycling	16 recycling operations around South Africa	Recovered recyclable materials such as paper and used PET bottles are sourced through pre- and post-consumer programmes. Materials are sorted and baled and used by Mpact's paper mills and Mpact Polymers as raw materials. 72% of the paper recovered by Mpact Recycling was consumed internally in the production of cartonboard and containerboard products, with the balance sold off to external customers.
Paper mills	Three mills in Springs (Gauteng), Felixton (KwaZulu-Natal) and Piet Retief (Mpumalanga)	Manufacture recycled-based packaging and industrial paper grades such as containerboard and cartonboard. Approximately 30% (2016: 32%) 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 with the balance sold to other converters. The top 10 external paper manufacturing customers represented approximately 72% (2016: 81%) of paper manufacturing external sales in 2017. Around 23% (2016: 14%) of products produced were exported, mainly to other African countries.



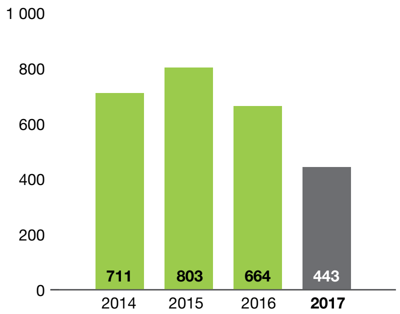
Operation	Location	Activities
Paper converting		Manufacture premium quality corrugated packaging products, provide high-graphic printing capabilities and other converted paper products primarily. Corrugated customers include producers of agricultural, FMCG and other durable and non-durable goods that use packaging primarily for the protection of goods in transit and for point-of-sale display. Around 40% of converted paper product customers are in the agriculture industry with 60% involved in the FMCG and industrial sectors.
Corrugated	Nine converting plants in South Africa, one in Mozambique and two in Namibia	
Detpak South Africa (51% held)	Aeroton (Gauteng)	Manufactures an extensive range of paper and board packaging solutions including cups, lids, cartons, bags, napkins, trays and clam shells for the QSR sector.
Distributor		Mpact has distribution rights to sell Mondi ProVantage Baywhite™ (a premium quality white top kraftliner) and Mondi ProVantage BayKraft™ (a premium quality kraftliner) in sub-Saharan Africa.

Paper business (continued)

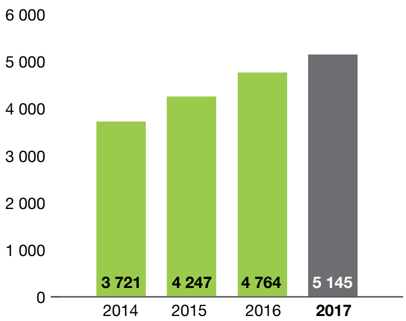
Segment revenue (Rm)



Underlying operating profit (Rm)



Operating assets (Rm)



STRATEGY AND OBJECTIVES

Mpact's Paper business has an integrated strategy that uses collected recyclables to manufacture packaging papers and produce high quality corrugated and converted paper products.

The Recycling business forms a vital part of our paper packaging value chain that improves input cost management and security of supply for the paper manufacturing business. Mpact's acquisition of Remade in May 2016 helps to meet the increase in recycled paper and plastics demand for the upgraded Felixton paper mill, the Mpact Polymers rPET plant and the liquid-packaging recycling plant at the Springs paper mill.

The main external markets for our packaging and industrial paper include corrugated board and box producers and other containerboard converters. 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 is produced from approximately 35% hardwood and softwood pulp as well as 65% recycled fibre-based pulp. The upgrade at Felixton eliminated the mill's use of bagasse.

OPERATIONAL PERFORMANCE

Revenue in the Paper business grew by 4.3% to R7.7 billion (2016: R7.4 billion). Sales volumes were in line with the prior year, helped by exports of containerboard, which offset a 4.1% decline in the domestic market due to subdued consumer demand, increased competition and the effects of the drought on fruit packaging volumes in the Eastern Cape and Western Cape.

Underlying operating profit of R443.0 million (2016: R664.1 million) in the Paper business was lower when compared to the prior year period due to higher recovered paper costs, as well as the lost contribution of approximately R30 million relating to the planned project downtime for the rebuild of the Felixton paper mill.

The Paper converting business reported a marginal growth in a difficult market, with revenue growing 0.4%. Margins were under pressure during the period, broadly as a result of increased levels of competition. This negative impact on margin was offset by an increased focus on cost controls.

The trend of certain Mpact customers increasing containerboard capacity in their own paper mills continued, leading to lower domestic containerboard sales and a shortage of recovered paper. The paper recovery rate in South Africa for 2016 was 68.4%[1], which surpasses the global average of 58% for paper recycling.

The Piet Retief paper mill had a good production year, supporting the Felixton paper mill through its downtime and ramp-up, demonstrating the flexibility of the group's operations.

We launched the liquid packaging recycling plant in July 2017, which will lead to improved fibre substitution, board strength and reduced processing cost. Securing a consistent supply of cartons for recycling is however a challenge.

While demand for fibre by Mpact's paper mills was largely met, this came at a higher cost and 1,113 tonnes (2016: 6,559 tonnes) of recovered paper had to be imported during the year. Mpact Recycling recovered 578,777 tonnes of paper in 2017, most of which was internally recycled into the 396,448 tonnes of paper products at the three paper mills. The remaining recovered paper collected by Mpact Recycling was sold to external customers.

[1] Statistics provided by the Paper Manufacturers Association of South Africa.

Volumes in the corrugated and converted paper products business declined slightly due to the impact of the drought on agricultural exports. Saleable production of 428 million m^2 of corrugated packaging was achieved in 2017 (2016: 434 million m^2).

Combined sales of recycled containerboard and cartonboard for the year ended 31 December 2017 were 403,496 tonnes (2016: 405,260 tonnes).

Despite sustained pressure on consumers and the resultant impact on QSR customers, Detpak again produced a solid performance. Mpact concluded the closure of Pyramid's Botswana operation in 2017 and the transfer of Pyramid's key assets to Detpak.

Mpact is committed to social and environmental responsibility and our operations prioritise water efficiency, energy efficiency and the responsible management of raw materials throughout the product lifecycle of our products.

Environmental sustainability has long been a driving force in the Paper business with significant reduction in the environmental footprint being recorded over the past two decades. In 2017 the Felixton paper mill and Port Elizabeth Corrugated plant rebuilds were important projects to further improve efficiencies and reduce impacts. However, as is the nature of rebuilds, the disruption caused by the projects affected efficiencies in the short term.

As a consequence, total energy usage per tonne of product from the Paper business manufacturing sites increased 3.4% to 6.92GJ per tonne of product in 2017 from 6.69GJ per tonne of product in 2016. This resulted in an increase in combined Scope 1 and Scope 2 Greenhouse Gas (CO_2e) emissions from 0.913 tonne CO_2e per tonne of product in 2016 to 0.932 tonne CO_2e per tonne of product in 2017.

Being in a water scarce country, water use efficiency is entrenched as a key consideration in process optimisation and in the design of new or upgraded plant. The trend to reduce water use continued in 2017 with the total water consumption per tonne of product decreasing from 6.63kℓ per tonne of product in 2016 to 6.24 kℓ/tonne of product in 2017, a decrease of 5.9%. The two corrugated plants in the Western Cape are in the process of implementing changes that will reduce their consumption of municipal water in 2018.

Mpact is actively investigating waste-to-energy solutions that will enable the mills to beneficiate the waste arising from the paper recycling process.

CAPITAL INVESTMENTS

Mpact's continued investment in capital projects supports our strategy by ensuring that efficiencies at the paper mills are optimised, costs are well controlled and our products remain relevant to our customers.

The Felixton paper mill upgrade project progressed well during the year. The paper machine was successfully commissioned as scheduled during July 2017 and the paper has been positively received in the market. Initial indications of cost are encouraging. Construction of the automated finished goods warehouse was completed and the facility successfully commissioned in December 2017. The project has met expectations in terms of quality, market acceptance and variable costs, and the mill is scheduled to ramp-up to full capacity by the end of 2018.

The R150 million project to modernise and expand the Port Elizabeth corrugated plant was completed in January 2018 and has started production to serve the increase in demand in the agricultural sector in the Eastern Cape.

Paper business (continued)

MATERIAL RISKS AND OPPORTUNITIES

The overall key risks and opportunities for the Group are set out on pages 66 to 69 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	• Retain 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	• Invest in Mpact'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	• 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	• 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 at the Felixton Paper mill.
Power supply outages resulting in lost working hours and supply shortages	• Ongoing communication with Eskom and local municipalities. • Work different shifts to manage capacity.
Economic and competitive influences on sectors and consumers outside of Mpact's control	• Consistently delivering smarter, sustainable solutions to customers to meet their objectives and strategy. • Monitor land reform policies and impact on agricultural customers.

We recognise that the challenges and risks our paper operation faces also include a number of opportunities and our strategy aims to ensure that we make the most of these. Opportunities we have identified include:

- Continuing to offer employment opportunities for entrepreneurs and for traders to deliver recovered paper to buy-back centres.
- Optimising and expanding operations with upgraded plant and equipment.
- Acquisition opportunities in converted paper products.
- Continuing to educate consumers and municipalities regarding the benefits of recycling waste.
- Aligning capital spend with growth industries in existing regions.
- Export opportunities into the rest of Africa and other regions.

Case Study

DEBONAIRS ON THE TRIPLE

The Debonairs "*On the Triple*" pack is the first of its kind in the South-African QSR market. This highly innovative pack features three stackable and interlocking trays, securely wrapped around a sleeve to form a unique heat retaining yet steam breathable pack with a carry handle for three large pizzas.

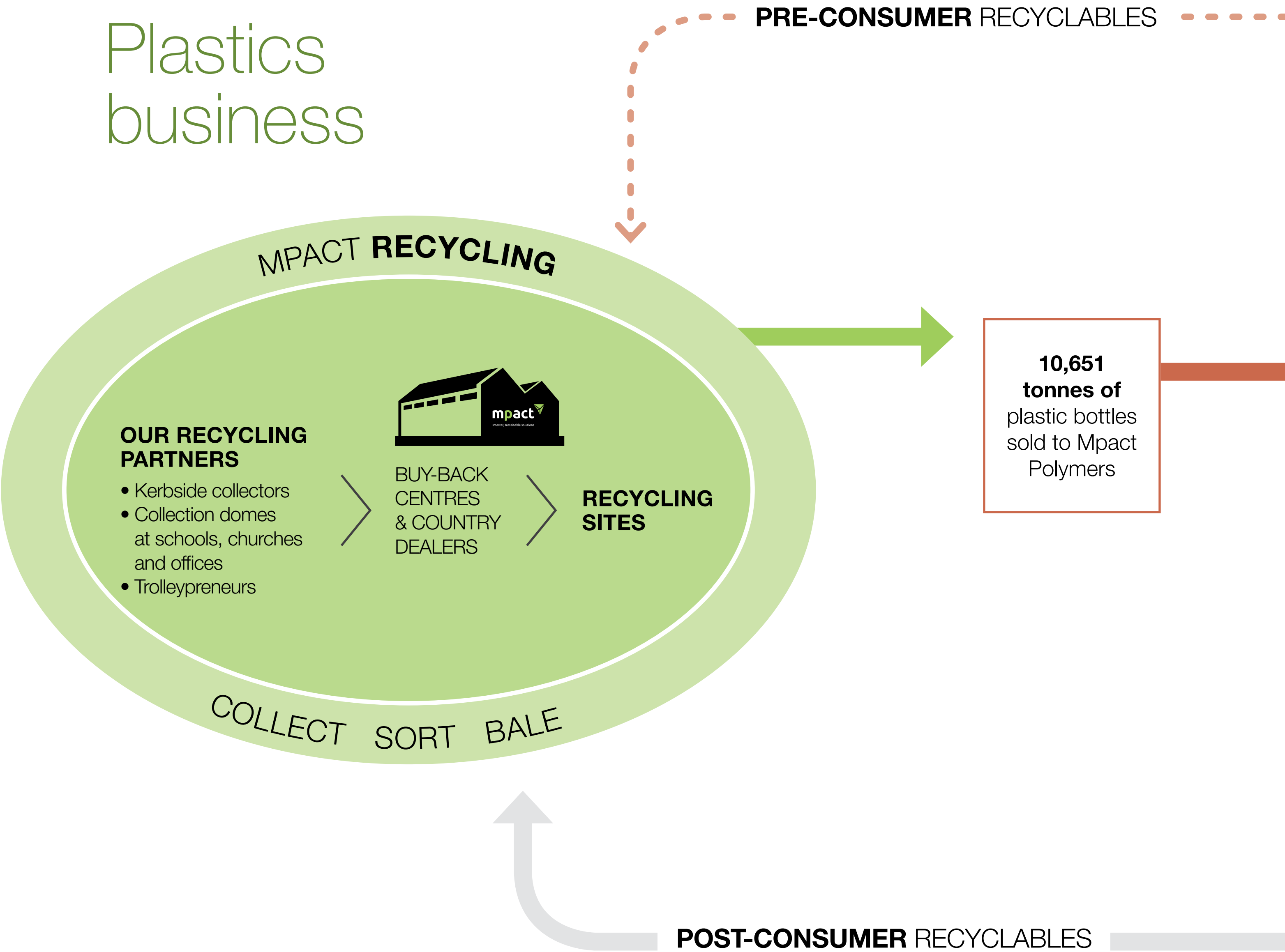
This highly innovative pack helps the brand to differentiate from its competition in a highly competitive market.

This cost effective, easily erected product is flat packed during distribution to optimise space. Maximum features are achieved with low board waste percentages. Stackable trays interlock using techniques developed for agricultural boxes and provide ample stacking protection. Heat retention is maintained and excess steam dissipates through three different vent holes. Small holes and half rounds on the sides provide horizontal ventilation while the vertical "chimney" handles ventilation towards the Hot or Not indicator. A sturdy sleeve around the trays completes the pack with side flaps and protruding locking tabs preventing the pizzas from sliding out if multitasking consumers carry the pizzas with one hand while answering the phone or unlocking the car with the other.

The design creates excitement and increased brand awareness and has translated into sales of close to 500,000 units in its first four months. It has rejuvenated a mature brand and offers extremely valuable differentiation and first to market benefit in the highly competitive QSR market. The slogan "#levels" derived from the carton style is the central selling point with in-store, outdoor, online, television and other innovative marketing campaigns such as a prompt on the popular Waze navigation app offering directions to the nearest outlet selling the "OTT". The distinctiveness of the carton is used as the sole and main selling point instead of the food it carries. The overwhelming success of the pack resulted in discussions for the concept to be manufactured under license agreements between Mpact and other international converters.

Food-safe 100% local papers are used in one converting process with printing, die-cutting and bundle shrink wrapping happening in-line to the highest quality in our ISO 9000, ISO 14000 and OHSAS 18001 certified factory. The entire pack is 100% recyclable, bio-degradable and is destined for a return trip back to an Mpact Paper Mill post-consumer use.

Plastics business



OPERATIONAL ACTIVITIES

Operation	Location	Activities
Plastic converting		
Trays and Films	Paarl (Western Cape) Wadeville (Gauteng)	Manufactures plastics trays and clear plastic film. The Group closed its trays business in Zimbabwe in December 2016.
Bins and Crates	Atlantis (Western Cape) Brits (North West)	Manufactures large injection moulded plastic jumbo bins for the agricultural market, environmental wheelie bins, plastic pallets and crates.
Preforms and Closures	Two sites in Wadeville (Gauteng)	Manufactures closures, PET preforms, bottles, and jars for the food, beverage, personal care and homecare industries.
FMCG*	Pinetown (KwaZulu-Natal) Atlantis (Western Cape)	Manufacture injection moulded, extrusion blow-moulded, injection stretch blow-moulded bottles, jars, containers and closures for the food, beverage, personal care, homecare and pharmaceutical industries.

** Fast-Moving Consumer Goods*

MPACT **POLYMERS**

ACTIVITY: Bottle-to-bottle facility which produces recycled polyethylene terephthalate (rPET).

OUTPUT: A recycled raw material used for the manufacturing of new plastic PET bottles from previously used PET bottles.

4,374 tonnes sold to other plastic converters who make plastic products

CUSTOMER USE

3,086 tonnes sold internally to Mpact Plastics

MPACT **PLASTICS**

ACTIVITY: Manufactures rigid plastic packaging in southern Africa.

OUTPUT: A range of plastic packaging products for the food, beverage, personal care, homecare, pharmaceutical, agricultural and retail markets.

CUSTOMER USE

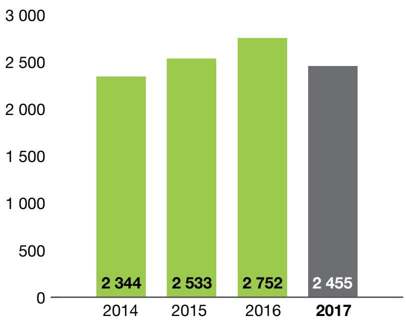
CONSUMER USE

RECYCLE

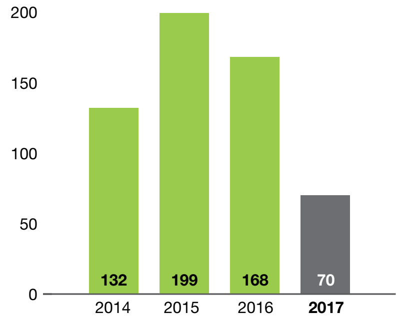
Operation	Location	Activities
Mpact Polymers rPET plant (79% owned by Mpact and 21% by the IDC)	Wadeville (Gauteng)	Developed in collaboration with key customers, this plant converts collected used PET bottles into recycled PET pellets that are used internally by the Mpact Plastics businesses or sold to external customers.

Plastics business (continued)

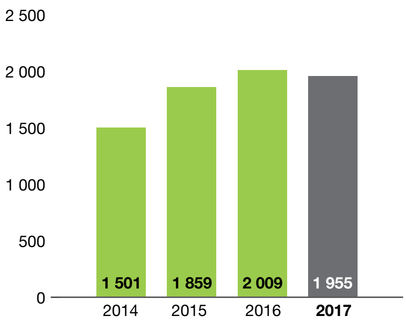
Segment revenue (Rm)



Underlying operating profit (Rm)



Operating assets (Rm)



STRATEGY AND OBJECTIVES

Mpact is one of the leading producers of rigid plastic packaging in southern Africa. In 2017, Mpact converted 93,801 tonnes (2016: 105,117 tonnes) of plastics into packaging products.

The Plastics business remains focused on growth through innovation, the substitution of alternative packaging materials with rigid plastics, organic expansion through optimisation and new projects as well as acquisitions.

Competition in the South African plastics industry continues to increase with new competitors entering the market in the trays and films sector, and a new international player acquiring local rigid plastics companies.

Mpact Polymers produces high quality recycled PET (rPET) to support the international drive to increase the percentage of recycled material in plastic packaging. At full capacity the plant will convert 29,000 tonnes of used PET bottles into 21,000 tonnes of rPET.

OPERATIONAL PERFORMANCE

The Plastics business revenue of R2.5 billion (December 2016: R2.7 billion) declined 10.8% compared to the prior year, with decreases in both sales volumes and average prices. Sales volumes in the Plastics converting business decreased by 6.9% due to muted consumer demand, reduced packaging to the agricultural sector because of the drought which affected apple trays, a shortage of virgin PET resin during peak production and the closure of the Zimbabwe operation in 2016.

Mpact Polymers sold 7,460 tonnes during the year (2016: 7,603 tonnes) of which 4,374 tonnes (2016: 4,310 tonnes) were to external customers.

The Plastics converting business reported an underlying operating profit of R141.9 million (2016: R255 million), offset by an underlying operating loss in Mpact Polymers, thus bringing the underlying operating profit for the Plastics business to R69.7 million (2016: R168.4 million).

Sales volumes measured in tonnes decreased from 2016, with growth in plastic containers offset by lower volumes in FMCG, trays, films, preforms and closures. Beverage bottlers were affected by the PET resin supply issues, which impacted volume demand for preforms. The agricultural sector reflected the effects of the prolonged drought in our key target markets, which affected volumes of apple trays and jumbo bins. The FMCG business saw lower volumes, but improved product mix and cost control.

The Plastics business successfully commercialised a long-term closure contract with a major customer and was awarded another long-term contract to supply preforms. The new compression moulded CSD 8 closure project was brought into production on time and within budget.

The ramp up to scale of the Polymers business is taking longer to deliver than anticipated due to the poor quality and lower availability of input material in the local market and other operational difficulties. Many of the inefficiencies related to the quality of the bottle feedstock, which deteriorated as collection rates increased. On the recommendation of an independent technical expert in rPET plants, we have approved process modifications to deal with the quality of incoming feedstock, which will be commissioned during 2018.

The Plastics business continues to focus on environmental sustainability by improving its energy, water and material use and managing waste disposal responsibly. The rPET plant can save 180,000 m^2 of landfill space each year when operating at full capacity and other recycling initiatives, including wheelie bin and crate recovery programmes, have been developed at our container plants to reduce the demand on virgin polymer.

Through an ongoing programme of upgrading plants with new process and ancillary equipment, Mpact Plastics is achieving significant progress in reducing its environmental footprint. Unfortunately, reduced market demand, and therefore production at our plants, has masked some of these gains. Energy consumption per tonne of product increased in 2017 to 4.88 GJ from 4.49 GJ per tonne of product in 2016. This drove the combined Scope 1 and Scope 2 Greenhouse Gas (CO_2e) emissions in 2017 up to 1.36 from 1.25 tonnes CO_2e in 2016.

Savings were, however, recorded in water consumption which declined from 2.16 kℓ per tonne of product in 2016 to 1.90 kℓ per tonne in 2017. The three plastics plants in the Western Cape are in the process of implementing projects that will significantly reduce their combined water demand from the municipality in 2018.

CAPITAL INVESTMENTS

Mpact Plastics invested in two new SACMI lines for lighterweight closures, this is aligned to the strategy to provide sustainable solutions to our customers. The machines were successfully commissioned in July 2017 with commercial production and supply in August 2017. Further investments were made in the year for jumbo bins with the purchase of a 5,500 ton Engel that was installed at our operation in Brits. This project was successfully commissioned to meet the demand of the agricultural sector.

MATERIAL RISKS AND OPPORTUNITIES

The overall key risks for the Group are set out on pages 66 to 69 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.

Material risks	Management of these risks
Inability to predict future market movements in raw material prices and lags in pricing recovery.	• Strong supplier relationships. • Continuous market monitoring and proactive pricing.
FMCG industry volume decline on the back of consumer spending pressure.	• Enhance competitiveness through optimisation programmes and investments. • Explore alternative product offerings. • Investigate cross-border opportunities.
New international and local plastic manufacturers entering the market.	• Use of rPET to enhance cost-competitiveness and maintain margins. • Product innovation. • Continued focus on customer service.
Power supply outages resulting in lost working hours and supply shortages.	• Ongoing communication with Eskom and municipalities.
Drought.	• Discussions with customers, water authorities and municipalities.
Tax on sugar-sweetened beverages.	• The Sugar Tax will be monitored closely as well as the effect on our beverage customers' sales volumes.

Opportunities identified include

- Acquisition and other expansion opportunities.
- Product innovation.
- Additional exports into the rest of Africa.