

RISK MANAGEMENT REVIEW

for the year ended 31 December

2016



RISK REVIEW 2016

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RISK MANAGEMENT REVIEW

for the year ended 31 December 2016

Mpact's management regularly enhance the Group's risk identification, evaluation, monitoring and control processes through the Risk Management Committee. Risk management, aligned with Mpact's strategy, is integral to the Group's objective to sustainably adding value to its stakeholders.

RISK MANAGEMENT

The Board considers the material business risks when approving strategies and budgets and monitors progress against the budget.

The Risk Management Committee identifies and evaluates strategic and operational risks against our 10 value drivers of: safe and healthy operating conditions; environmentally responsible operations; reputational Integrity (ethics, reputation, customer safety); motivated workforce; achieving Group strategy; achieving growth objectives; achieve operational, profitability and liquidity objectives; effective commercial stakeholder relations; compliance with legislation and contractual terms; and accurate and timely reporting.

The Group has policies and procedures in place to manage its governance, operations and information systems.

Risks are reviewed and updated on a regular basis. The risks are outlined on pages 12 to 15 of the 2016 Integrated Report, as well as on pages 5 to 8 of this Review.

ENTERPRISE RISK MANAGEMENT POLICY AND FRAMEWORK

Mpact aims to create superior value and benefits on a sustainable basis across commodity cycles for all stakeholders. The achievement of these objectives is dependent on the diligent management of risk. Particularly important is determining how much uncertainty to tolerate, as uncertainty presents both risk and opportunity with the potential to erode or enhance value.

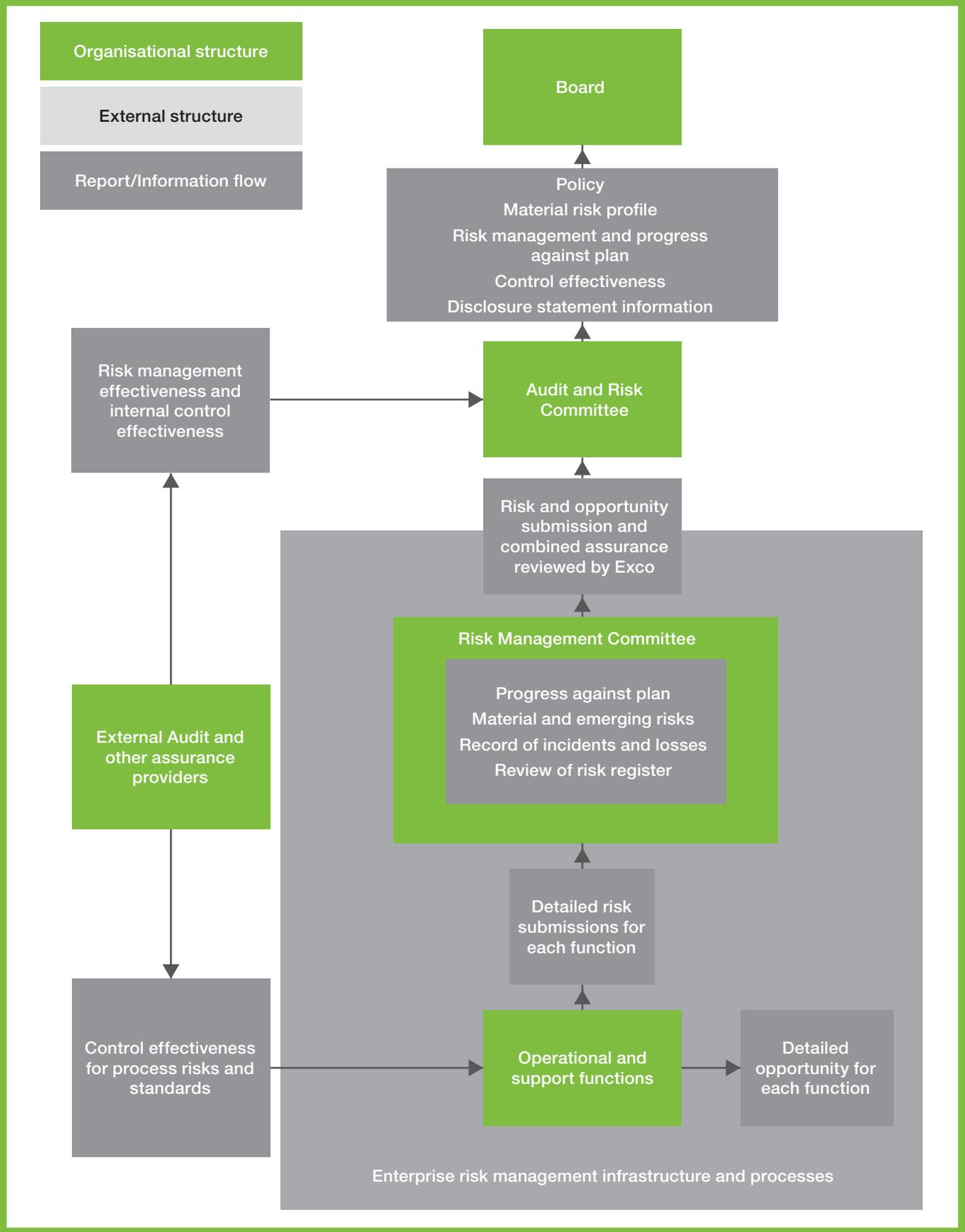
The Board retains responsibility and accountability for the overall risk management process and setting risk appetite and tolerance limits. The Board has committed the Group to a process of risk management that is aligned with the principles of King III, as well as generally-accepted good risk management practices.

The Audit and Risk Committee assists the Board in the execution of its fiduciary duties regarding risk management. The Executive Committee (Exco), through the Risk Management Committee, reviews the output of the risk management process to ensure the appropriate management of risks. Management is accountable to the Audit and Risk Committee and works with the relevant staff within the business to ensure the implementation of the risk management process.

In line with Mpact's decentralised structures, risk assessment and management processes enable every business within the Group to take responsibility for the management of its risks. This is done to encourage proactive action by the business units when faced with risks and opportunities.

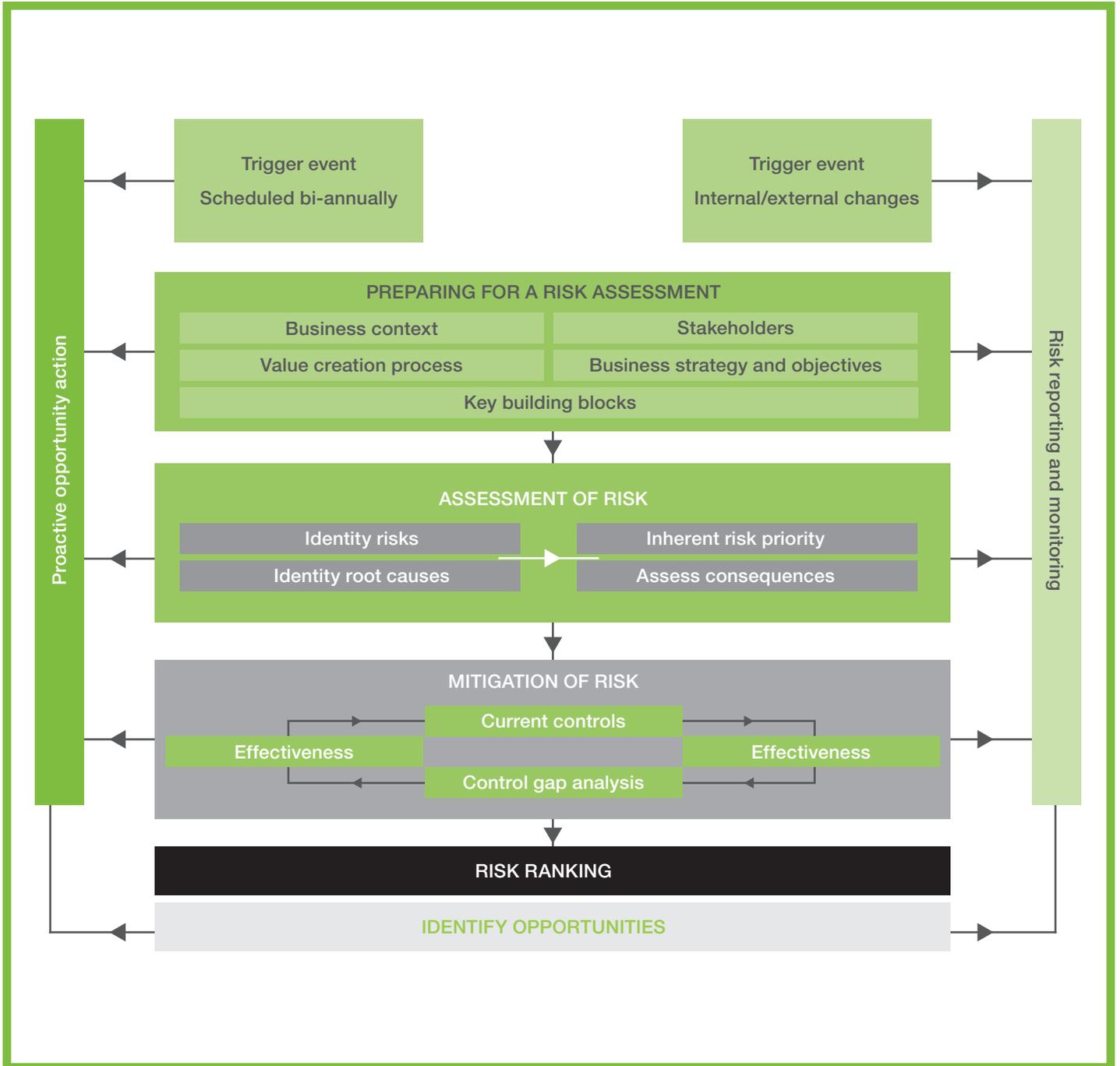
The Enterprise Risk Management Framework sets out the approach to be taken to address and improve risk management to achieve Mpact's objectives.

ENTERPRISE RISK MANAGEMENT FRAMEWORK



ENTERPRISE RISK MANAGEMENT CYCLE

The Enterprise Risk Management Cycle illustrated below indicates how the risk management process is used within the business.:



ENTERPRISE RISK MANAGEMENT CYCLE

continued

The diagram explained in more detail:

Bi-annual review	This process is scheduled to be conducted on a bi-annual basis, but could be initiated at the occurrence of any significant development either internal or external to the business.
Preparation	Consideration is given to: the environment in which the business operates; stakeholder interests in the organisation; as well as alignment with the business strategy and objectives.
Identification of risks	The risks determined by all business units and service departments are recorded in divisional risk registers. Risks that could potentially affect the Group are elevated to the Group Risk Register.
Assessment of risks	These inherent risks are rated in terms of their potential impact on the business and likelihood of occurrence.
Mitigation of risks	Preventative and corrective mitigations that are in place are reviewed and new measures developed. These are recorded in the register. Other appropriate actions are then determined based on the level of risk. These responses could be risk avoidance, risk sharing (with insurers or other parties), risk acceptance or risk mitigation (actions to reduce the impact or likelihood of occurrence).
Ranking of risks	Risks are then rated in context of the mitigations implemented to determine residual risk ratings. The material risks to the business are highlighted for prioritisation by management by considering the residual risk ratings against Board approved appetite and tolerance levels.
Reporting and monitoring of risks	The management and monitoring of material risks, and combined assurance for these risks, is reported to the Audit and Risk Committee as well as the Board.

INSURANCE

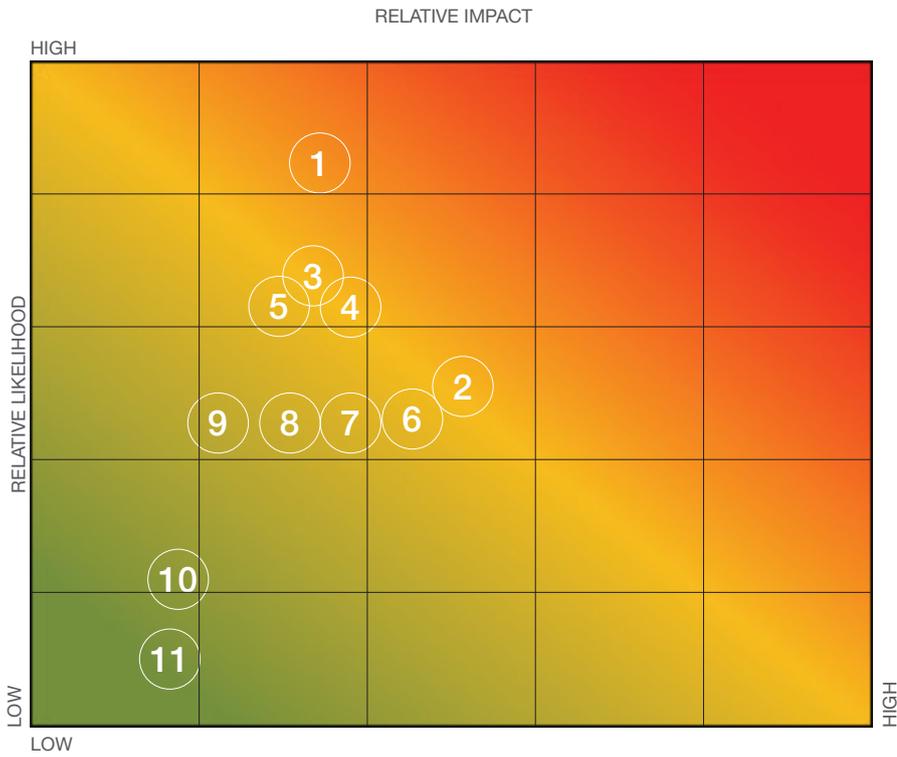
Insurance arrangements are reviewed annually by the Risk Management Committee and the Audit and Risk Committee to ensure that appropriate insurance cover is in place to cover insurable material risks. Where risks are insurable the insurance cover is taken into consideration when determining the residual risk rating of risks.

MATERIAL RISKS

MATERIAL RESIDUAL RISKS

The material risks identified correlate with the Group's materiality determination and stakeholder engagement processes. The material principal risks identified and attended to by Mpac are set out in the table below. These risks were approved by the Audit and Risk Committee on 1 March 2017.

RESIDUAL RISK HEAT MAP



MATERIAL RISKS

continued

The material risks identified and monitored by the Risk Management Committee and Audit and Risk Committee are summarised below.

2016 Residual risk ranking	2015 Residual risk ranking	Underlying risk and its potential impact	Mitigation actions taken to limit impacts
1	2	<p>1. Trading environment</p> <p>Mpact operates in an uncertain and highly competitive trading environment where subdued economic growth, excess capacity in the market, new entrants and changing ownership within the sector, imports, product substitution, and changes to customer supply agreements could lead to reduced sales and profits for both the Paper and Plastics businesses.</p>	<ul style="list-style-type: none"> Maintaining our leading market position. Innovation through research, product design, product diversification and market development. Long-term supply agreements with key customers. Commitment to active customer service and communication. Proactive management of costs. Continued focus on quality with manufacturing sites certificated to the ISO 9001 standard. Leveraging the integration in the Paper business. Continuous improvement of and investment in equipment, processes and operational method at all manufacturing sites. Current investment in the Felixton mill and Mpact Polymers rPET plant highlight this commitment. Close monitoring of market conditions, nationally and internationally.
2	2	<p>2. Legislation</p> <p>More stringent and changing legislation has the potential to increase costs of compliance and risk of fines and penalties. Of particular concern are:</p> <ul style="list-style-type: none"> National Environmental Management Act and the affiliated Water and Waste Acts Waste levies Carbon tax, Carbon Budgets, and Pollution Prevention Plan Regulations Carbon tax, Carbon Budgets, and Pollution Prevention Plan Regulations Competition regulations B-BBEE and EE regulations Tax regulations Labour Act and regulations OHS Act Sugar Tax 	<ul style="list-style-type: none"> Mpact addresses these concerns by retaining experts in relevant disciplines such as law and tax who assist in maintaining vigilance and compliance. In addition to existing safety and environmental legal registers, a management booklet on laws pertinent to the Group has been compiled. A rigorous schedule of internal and external audits and statutory inspections across all disciplines monitors compliance. The Group also contributes to the development of legislation by engaging with Government via industry bodies. Mpact continues to actively engage with Government on emerging environmental legislation such as carbon tax and packaging waste levies, water pricing strategy and waste regulations which are currently being considered. The Group is also actively working on initiatives to reduce the potential costs of environmental legislation through improved energy and water efficiency as well as through expanding its recycling programmes. Mpact launched the Mpact Foundation Trust. Management is co-engaging with the Competition Commission pertaining to the investigation initiated in 2016 that implicated Mpact.

Residual risk barometer

- UNSATISFACTORY
- WEAK
- SATISFACTORY
- GOOD
- VERY GOOD

- RISK RATING DECREASES
- RISK RATING UNCHANGED
- RISK RATING INCREASES

2016 Residual risk ranking	2015 Residual risk ranking	Underlying risk and its potential impact	Mitigation actions taken to limit impacts
3		<p>3. Water supply</p> <ul style="list-style-type: none"> Unreliable supply and deteriorating quality of water could lead to a loss of production and disease outbreak among workers. The severe drought conditions that started in 2015 and prevailed in 2016 could lead to disruption of some Mpact operations due to lower quantities and quality of water. 	<ul style="list-style-type: none"> Reduction in water consumption is a key performance indicator and investment driver, particularly in the paper mills and at Mpact Polymers. All operations keep abreast of water supply and quality issues in their areas. Felixton mill was subject to water restrictions in 2016 but managed to meet these without loss of production. The drought in the Western Cape is a concern and the effects are being monitored.
4		<p>4. Workforce</p> <p>Labour-related matters such as strikes, unrest, loss of key skills and cost increases above inflation, could lead to loss of productivity and the ability to produce quality products competitively.</p>	<ul style="list-style-type: none"> The business upholds fair labour practices, which go beyond minimum requirements. Regular interactions through formal and informal channels to resolve labour matters. Key skills are identified and training provided to carefully selected candidates ensuring a sustainable supply of skilled personnel. Bursaries and other study opportunities are offered to employees and school leavers. The Group has retention mechanisms to retain scarce skills and succession planning processes are in place. Commitment to the welfare of employees is demonstrated by adherence to health and safety standards that are a priority at all levels across the Group. The three-year cycle for wage negotiations in the Plastics business is due for renewal in 2017.
5		<p>5. Raw materials</p> <ul style="list-style-type: none"> Prolonged shortages of key raw materials, such as virgin and recovered fibre, containerboard and polymers could lead to loss of production, changes to product offerings and/or higher costs. Of particular concern is the supply constraints for recovered paper. 	<ul style="list-style-type: none"> Long-term supply agreements; multiple suppliers; utilisation of alternative raw materials and collection of recyclables from a variety of sources are all strategies used where possible by Mpact. Ongoing investment in Mpact Polymers rPET will contribute to increased material supply security. Mpact participates in active industry-wide lobbying to influence Government legislation to enable the recycling industry. Working with local Government to secure access to recyclable paper and plastic. The purchase of Remade in 2016 has greatly increased Mpact's access to recyclables. Retain market position as leading paper recycler in South Africa and preferred buyer of recovered paper.
6		<p>6. Electricity supply</p> <ul style="list-style-type: none"> Unreliable supply and higher costs of energy could lead to a loss of production and increased costs. The situation improved in 2016 with no Eskom load shedding although some operations did suffer some power outages due to failure of distribution infrastructure. 	<ul style="list-style-type: none"> Energy efficiency projects and demand planning strategies have been implemented where feasible across the Group. An Energy Manager has been appointed to lead energy management strategies across the Group. Ongoing communication with Eskom and municipalities.

Residual risk barometer

-  UNSATISFACTORY
-  WEAK
-  SATISFACTORY
-  GOOD
-  VERY GOOD

-  RISK RATING DECREASES
-  RISK RATING REMAINS THE SAME
-  RISK RATING INCREASES

MATERIAL RISKS

continued

2016 Residual risk ranking	2015 Residual risk ranking	Underlying risk and its potential impact	Mitigation actions taken to limit impacts
7		<p>7. System failures and risks</p> <p>Catastrophic systems failure, fires, floods, bad debts, ICT system failure and breaches of ICT security or plant perimeter security could lead to prolonged production and distribution interruptions, as well as increased costs of working and capital replacement costs.</p>	<ul style="list-style-type: none"> The Mpact Risk Control Standards apply to all operations and provide guidelines on issues such as fire protection, security, emergency preparedness and environmental management. Operations are audited against these standards. ICT security has become a major focus and Mpact adopts the best appropriate security standards. Rigorous ICT system backup programs are maintained. Business continuity plans, aimed at minimising disruptions in the event of disasters, are in place at various levels across the Group. Debtors and bad debt provisions are managed and reviewed proactively.
8		<p>8. Plastics: Capital projects</p> <p>Mpact Polymers rPET plant equipment.</p>	<ul style="list-style-type: none"> Mpact Polymers has been constrained by equipment bottlenecks such as grinders, which are in the process of being replaced. Improvement in yields are being realised through better sourcing of PET bottles and plant optimisation.
9		<p>9. Safety in the workplace</p> <p>Injuries from workplace accidents could lead to suffering of employees and contractors, loss of skills, reduced production, lower morale and to reputational damage.</p>	<ul style="list-style-type: none"> Senior Management at Mpact demonstrate a primary focus on safety through the CEO's Safety Philosophy and SHE Policy. Operational management reinforce this by ensuring standards and procedures are in place. The Group drives safety through various interventions and systems including: <ul style="list-style-type: none"> Fire and Safety Rules to live by; Annual Safety Plan; Hazard identification and Risk Assessment, and Safe Work Practices; A system of Behaviour Based Safety observations and interventions to remove identified barriers to safe behaviour. An innovative safety-culture training programme using internally developed cartoons. Induction and annual re-induction training. Despite the level of safety focus in the business, our safety performance in 2016 was not satisfactory and the Group is considering new initiatives to increase safety awareness and compliance with safety standards.
10		<p>10. Paper: Capital projects</p> <p>Felixton mill Phase 2 upgrade.</p>	<ul style="list-style-type: none"> The Felixton mill upgrade project is progressing well with the final installation planned for June and July 2017. A capable project team is managing the project and there are no known barriers to a successful start-up in July 2017.
11		<p>11. Critical plant equipment</p> <p>Major failure/breakdown of critical equipment could cause prolonged loss of production and increased costs.</p>	<ul style="list-style-type: none"> Operations have formal planned maintenance programmes, which include regular equipment inspections, condition monitoring, statutory inspections and proactive maintenance programmes. Capital is allocated annually to proactively replace or upgrade plant and equipment. The Group also has machinery breakdown insurance cover on critical items of plant.

OPPORTUNITIES

The Group continuously identifies and pursues growth and expansion opportunities to unlock and create value for its stakeholders.

Mpact remains open to investment opportunities in South Africa and further afield in Africa, provided they meet the Group's risk assessment requirements.

Mpact is investing R765 million in upgrading the Felixton paper mill near Empangeni in northern KwaZulu-Natal, to enhance its product offering and reduce its environmental footprint. The first phase, including increasing the recycled fibre processing capacity of the mill, was successfully completed and commissioned in 2015. The second phase is progressing well towards the final stages of upgrading the paper machine in 2017.

At full capacity, the Mpact Polymers plant will process 29 000 tonnes of recovered PET bottles to produce 21 000 tonnes of recycled PET (rPET) bottles annually. Mpact Polymers has started selling rPET to Mpact's plastics business, where it is blended with virgin material for the manufacture of beverage bottles and other products, and to external customers. Mpact is well positioned to offer high quality rPET to local and international food retailers, who are on a campaign to increase the composition of rPET in their packaging product, with some already increasing rPET from 10% – 20%.

Mpact acquired Remade Recycling in 2016 in order to increase recycling and secure the additional fibre required for the Felixton mill rebuild and recovered PET bottles for Mpact Polymers rPET plant. This business adds approximately 240 000 tonnes of additional recovered material to Mpact's materials stream.

Mpact's Stellenbosch-based R&D centre and our paper and corrugated box research facility in Springs, actively explore innovative products and specialise in conducting research and tests related to customer safety.

In line with Mpact's commitment to continual improvement, investments in new and refurbished equipment in the Corrugated and Plastics businesses have resulted in improved performance and reduced the energy and environmental footprints of these divisions in 2016.

Daliso, a BBBEE business was established to market by-products from the Piet Retief mill which aims to convert materials that are currently difficult to dispose of into value-added commodities that will ultimately increase the plant's pulp production.

Despite the many challenges being faced in the South African economy and the industry, Mpact has a strong market position and believes that there are opportunities to continue to grow the business and unlock stakeholder value.



mpact 
smarter, sustainable solutions

www.mpact.co.za
info@mpact.co.za

