

RISK MANAGEMENT

Risk management is an essential part of Mpact's governance framework and supports the continued ability of the Group to create superior value and sustainable benefits for all stakeholders.

RISK MANAGEMENT

The Group has a Risk Management Framework and Enterprise Risk Management Guideline built on the ISO 31001 standard. The risk management process is managed by the Group Risk and Sustainability Manager who reports to the Executive Committee via the Risk Management Committee, and to the Board through the Audit and Risk Committee.

The Risk Management Committee identifies and evaluates strategic and operational risks against our ten business value drivers of:

- safe and healthy operating conditions;
- environmentally responsible operations;
- reputation (ethics, environment and customer safety) and CSI;
- motivated workforce;
- achieving Group strategy;
- achieving growth objectives;
- achieving operational, profitability and liquidity objectives;
- effective commercial stakeholder relations;
- compliance with legislation and contractual terms; and
- accurate and timely reporting.

The Board considers the material business risks in its fiduciary oversight of Mpact when approving Group strategy, capital expenditure and the budget.

The Group has policies and procedures in place to manage its governance, operations and information systems with regard to the:

- reliability, security and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of people and assets;
- reducing of our environmental footprint; and
- compliance with laws, regulations and contracts

Risk assurance is considered at managerial (level 1), corporate function (level 2) and external (level 3) levels by both the Risk Management Committee and the Audit and Risk Committee for reporting to the Board. Risks are reviewed and updated on a regular basis. Mpact's top risks are shown in the table on pages 70 to 72.

ENTERPRISE RISK MANAGEMENT POLICY AND FRAMEWORK

The Board retains responsibility and accountability for the overall risk management process, setting risk appetite and tolerance limits. The Board has committed the Group to a process of risk management that aligns with the principles of King IV, 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 businesses 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 own risks. This is done to encourage proactive action by the business units when faced with risks and opportunities.

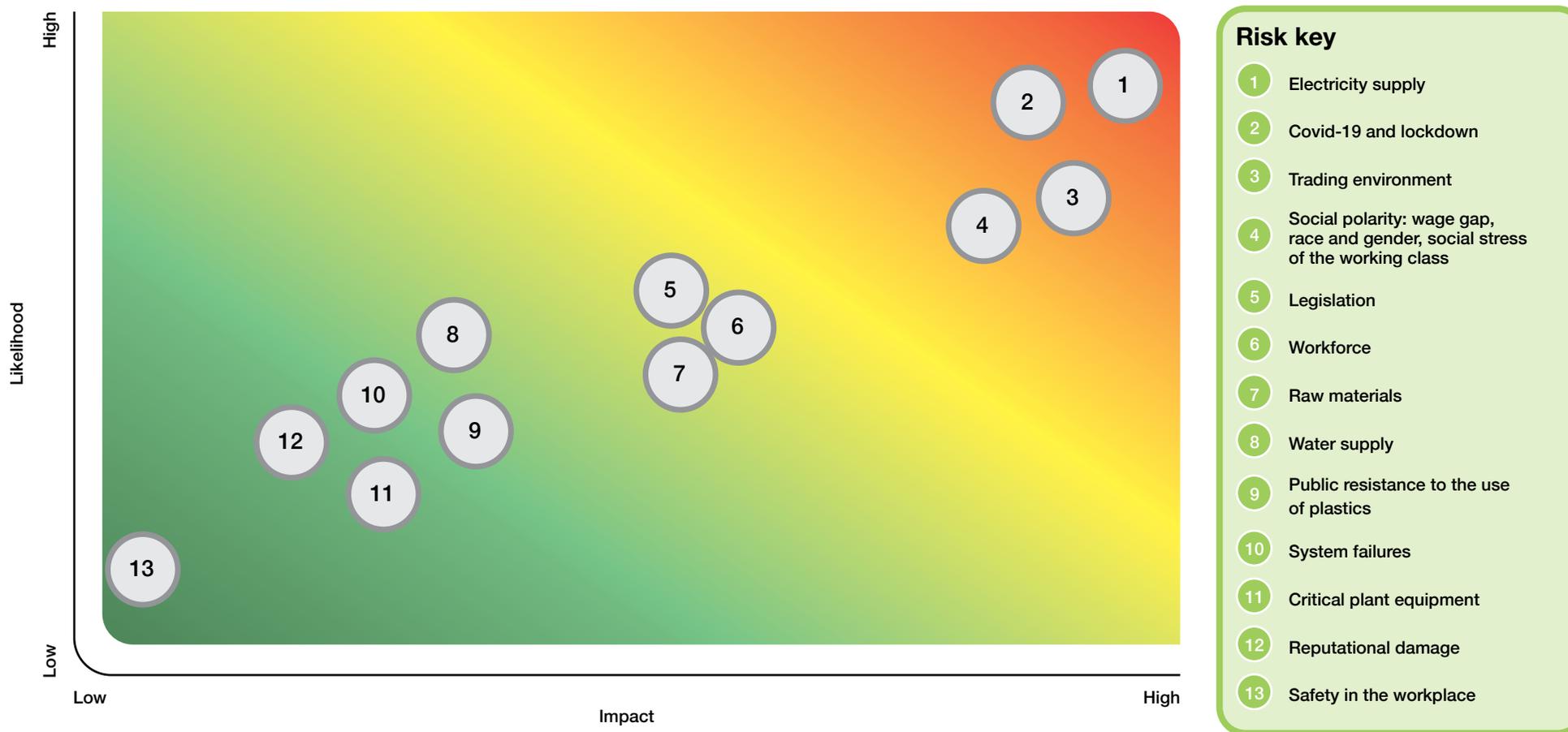
The Enterprise Risk Management Framework sets out the approach to be taken to address and improve risk management to achieve Mpact's objectives.

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 on pages 70 to 72. These risks were approved by the Audit and Risk Committee on 2 March 2021.

RESIDUAL RISK HEAT MAP



MATERIAL RISKS CONTINUED

2019	2020	Underlying risk and its potential impact	Mitigation actions taken to limit impacts
		<p>1. Electricity supply Unreliable supply and higher costs of energy could lead to a loss of production and increased costs. Increased load-shedding as well as Ekurhuleni municipal electricity supply infrastructure failures increased focus on this risk in 2020. Eskom will likely be authorised to apply price increases well above inflation for the foreseeable future.</p>	<ul style="list-style-type: none"> Group Energy Manager leads energy management strategies to improve energy efficiency and implement alternative energy supply such as solar PV. Mpact has installed 2.87 MWp of rooftop solar PV and is evaluating plans for a further 11.57 MWp. Ongoing communication with Eskom and municipalities to keep abreast of electricity distribution issues.
	New Risk 	<p>2. Covid-19 and lockdown The Covid-19 pandemic and associated lockdown affected health and wellbeing of people and economies nationally and internationally. Covid-19 infection trends among Mpact employees and contractors followed national trends and sadly nine people, who had tested positive for the virus, passed away in the period up to March 2021. Most Mpact operations were registered as “essential services” supplying packaging to the food and pharmaceutical industries and were able to operate. However, the supply of packaging to non-essential industries was curtailed affecting the overall turnover of the business.</p>	<ul style="list-style-type: none"> Mpact’s operations complied with Covid-19 lockdown regulations including appointment of Compliance Officers, screening, physical distancing (including work from home, shift system changes and shift splitting) hand washing and sanitising, and wearing of masks. Mpact also manufactured and distributed over 1 million face shields, distributed R1,500,000 worth of support packs to families of employees and contractors, and distributed R200,000 worth of food packs to waste pickers and other affected communities.
		<p>3. Trading environment Subdued economic growth and increasing competition mean that Mpact operates in an uncertain and highly competitive trading environment which could lead to reduced sales and profits for both the Paper and Plastics businesses.</p>	<p>Maintaining our leading market position by supplying quality products and service through:</p> <ul style="list-style-type: none"> Innovative research, product design, product diversification, vertical integration and market development. Long-term agreements with key customers and suppliers supported by active customer service. Proactive management of costs. Product assurance, against international standards such as ISO, for quality, environment and food safety. Continuous improvement of, and investment in, equipment and processes.
		<p>4. Social polarity: wage gap, race and gender, social stress of the working class. High unemployment rates, socio-political and economic uncertainty, as well as service delivery protests that have led to high levels of stress and outbreaks of violence that pose a threat to the business both physically and economically.</p>	<ul style="list-style-type: none"> Mpact has implemented the Group Transformation Policy, Group Code of Ethics, Fair Employment Policy and Promotions Philosophy to ensure equitable employment practices. Other activities include community engagement, corporate social investment programmes, small business and entrepreneurship development. Mpact actively engages with unions and communities. Proactive security measures are taken.

2019	2020	Underlying risk and its potential impact	Mitigation actions taken to limit impacts
		<p>5. Legislation Evolving legislation has increased the costs of compliance and the 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 • Carbon Tax • Competition compliance • B-BBEE and EE regulations • Tax regulations • Labour Act • Sugar Tax 	<ul style="list-style-type: none"> • Retaining experts in, and legal registers of, relevant disciplines supported by rigorous audits. • The Group contributes to the development of legislation by engaging with government via industry bodies. • Mpact Operations achieved Level 1 B-BBEE certification. • Management is engaging with the Competition Commission regarding an investigation initiated in 2016 that implicated Mpact. • The impact of Sugar Tax and Carbon Tax are understood and mitigations have been put in place.
		<p>6. Workforce 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"> • Mpact upholds fair labour practices for employment equity, recruitment, labour interactions, training, bursaries for employees and their children, skills retention and succession planning, as well as adherence to excellent health and safety standards.
		<p>7. Raw materials Prolonged shortages of key raw materials could lead to loss of production, changes to product offerings and/or higher costs. Availability of recovered paper for recycling was negatively affected by the economic slowdown caused by the Covid-19 lockdown. Risks associated with importing raw materials were increased due to the impact of Covid-19 on supply chains internationally.</p>	<ul style="list-style-type: none"> • Retain market position as the leading paper recycler in South Africa and preferred buyer of recovered paper. • Long-term supply agreements, multiple suppliers, use of alternative raw materials and collection of recyclables from a variety of sources. • Engage with national and local government to influence policy and secure access to recyclable paper and plastic.
		<p>8. Water supply Unreliable supply and deteriorating quality of water could lead to a loss of production and disease outbreaks.</p>	<ul style="list-style-type: none"> • Reduction in water consumption is a key performance indicator and investment driver in manufacturing operations. • Mpact exceeded the target of reducing water consumption by 20% by 2020 against the baseline year of 2012.
		<p>9. Public resistance to the use of plastics Public concern related to food safety and plastics pollution, especially concern over plastics in oceans, is increasing. There is a particular focus on single-use plastics and the GHG implications of plastics originating from oil. There is an increasing move internationally to reduce the use of plastics or drive recycling. This poses a risk to our FMCG and beverage bottle businesses. However, internationally focus on this issue decreased in 2019 due to the intense focus on Covid-19.</p>	<ul style="list-style-type: none"> • Mpact is well structured to demonstrate circular economy principles by recycling both paper and plastics materials. • Cooperation between the paper and plastics businesses enhances vertical and cross integration to find the best packaging solutions for customers and consumers. • Mpact is generating customer and public awareness of our circular economy capabilities and focus. • Our Detpak business manufactures paper bags to replace plastic shopping bags. • The corrugated business is making cardboard trays to replace polystyrene in dry applications.

MATERIAL RISKS CONTINUED

2019	2020	Underlying risk and its potential impact	Mitigation actions taken to limit impacts																
		<p>10. System failures 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 Mpack Risk Control Standards provide guidelines to all operations on fire protection, security, emergency preparedness and environmental management. Mpack adopts the best appropriate ICT security standards guided by a cyber-security consultant. Business continuity plans are in place at various levels across the Group. Debtors and bad debt provisions are managed and reviewed proactively. 																
		<p>11. Critical plant equipment Major failure/breakdown of critical equipment could cause prolonged loss of production and increased costs. During the Covid Lockdown, this risk was exacerbated by the restriction on international travel that could have impacted on Mpack's ability to bring in international expertise to assist with breakdowns.</p>	<ul style="list-style-type: none"> Operations have formal planned maintenance programmes. The Group also has machinery breakdown insurance cover on critical items of plant. A programme of plant and equipment upgrades has improved overall reliability of equipment. Travel restrictions due to Covid-19 have increased the uncertainty of accessing critical parts and expertise from international equipment suppliers. 																
		<p>12. Reputational damage Damage to Mpack's reputation could arise from public perceptions regarding certain products, false news, or ethical issues arising within the Group. Elements contributing to this risk were considered under other risk reported in previous years.</p>	<ul style="list-style-type: none"> Mpack monitors public opinion regarding its products, particularly plastics. Mpack has focused on incorporating circular economy principles in its business model and is the largest recycler in South Africa. A comprehensive Code of Ethics guides ethical standards in Mpack. The Group responds with accurate information to "false news" reports. Sites that supply food contact packaging are certificated to international food safety standards. Mpack also operates a highly skilled and equipped food safety research laboratory. Mpack works closely with industry bodies in the paper, plastics and recycling industries to ensure development and alignment with best practice. 																
		<p>13. Safety in the workplace Injuries from workplace accidents could affect the wellbeing of employees and contractors leading to a loss of skills, reduced production, lower morale and reputational damage.</p>	<ul style="list-style-type: none"> Senior management demonstrates a primary focus on safety through the CEO's Safety Philosophy and SHE Policy. Operational management reinforces this by ensuring effective safety standards and procedures are in place. The Group drives safety through various physical, procedural and behavioural interventions and programmes. Mpack has engaged Life EHS to provide a 24/7 call centre and counselling service to assist employees dealing with high-stress factors in their lives. 																
<table border="1"> <tr> <td></td> <td>Very Good</td> <td></td> <td>Good</td> <td></td> <td>Satisfactory</td> <td></td> <td>Weak</td> <td></td> <td>Unsatisfactory</td> <td></td> <td>Increasing risk</td> <td></td> <td>Stable risk</td> <td></td> <td>Decreasing risk</td> </tr> </table>					Very Good		Good		Satisfactory		Weak		Unsatisfactory		Increasing risk		Stable risk		Decreasing risk
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OPPORTUNITIES

The Group continuously identifies and pursues growth and expansion opportunities to unlock and create value for its stakeholders. We remain open to investment opportunities in Southern Africa and further afield, provided they meet the Group's risk assessment requirements.