

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:

1. safe and healthy operating conditions;
2. environmentally responsible operations;
3. reputation (ethics, environment, customer safety) and CSI;
4. motivated workforce;
5. achieving Group strategy;
6. achieving growth objectives;
7. achieving operational, profitability and liquidity objectives;
8. effective commercial stakeholder relations;
9. compliance with legislation and contractual terms; and
10. accurate and timely reporting.

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. Mpac's top risks are shown in the table on [🔗](#) pages 74 to 78.

Enterprise risk management policy and framework

Mpac 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. Mpac has a Risk Management Framework accompanied by the Risk Management Guideline that set out the approach to risk and align with the principles of King IV™ and the ISO 35000 Risk Management Standard.

In line with Mpac'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 Group Risk and Sustainability Manager coordinates the Group Risk Register, liaising quarterly with the Risk Management Committee that consists of Mpac's Executive Committee members. The Risk Management Committee reviews the outputs of the risk management process to ensure appropriate management of risk and implementation of risk management processes across the business.

The Executive Committee, through the Risk Management Committee, is accountable to the Audit and Risk Committee,

for risk management. The Audit and Risk Committee advises the Board, which retains fiduciary responsibility for risk management, on risk-related matters.

Our material principal risks

The material risks identified correlate with the Group's materiality determination and stakeholder engagement processes. We have a structured and systematic approach to managing our most material risks and to addressing the material interests of our stakeholders. Guided by our vision and supported by our values, our approach is underpinned by a well-defined process for identifying and evaluating the risks and opportunities most material to the business.

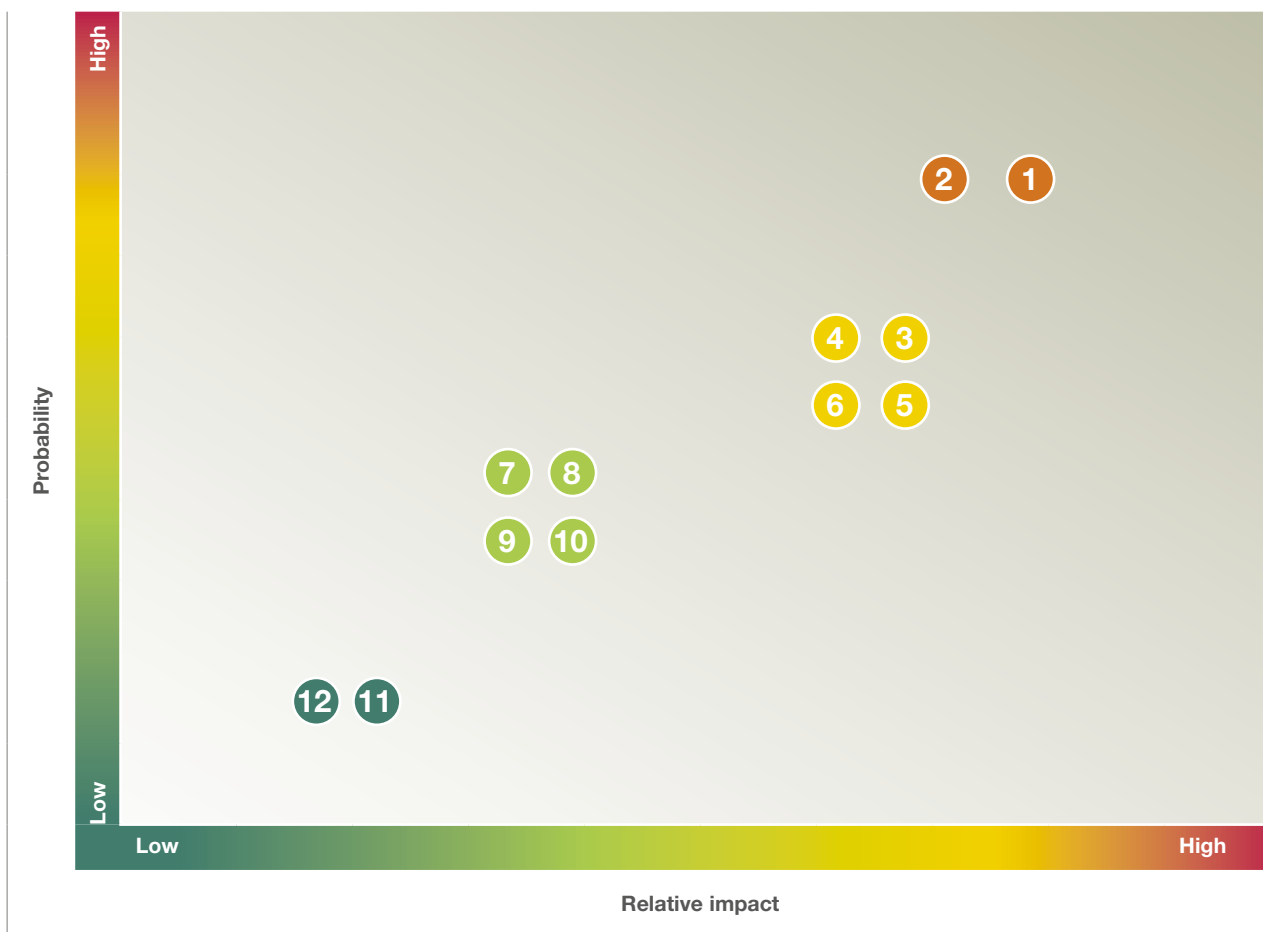
Twelve material principal risks have been identified by the Group and are set out below. These risks were considered by the Audit and Risk Committee on 6 March 2023.

The risk management process and enterprise risk management policy and framework are addressed in the Governance section of the Integrated Report on [🔗](#) pages 73 to 80, along with a discussion of the mitigation plans in place to address these risks as well as the opportunities available to the Group. Emerging risks are included in the analysis.

Material risks and opportunities relating specifically to the Paper and Plastics businesses are discussed on [🔗](#) page 39 and 44 of this report.

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

Risk management (continued)






Risk heat map of material residual risks



- ① Service delivery interruptions
- ② Social polarity
- ③ High cost and shortages of raw materials
- ④ Trading environment
- ⑤ Compliance with legislation
- ⑥ Public resistance to the use of plastics
- ⑦ Major capital projects
- ⑧ System failures
- ⑨ Workforce cost and stability
- ⑩ Safety in the workplace
- ⑪ Critical plant and equipment
- ⑫ Reputational damage





● Unsatisfactory
 ● Weak
 ● Satisfactory
 ● Good
 ● Very good

↗ Increased risk
 → Stable risk
 ↘ Decreasing risk


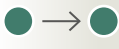

Residual risk		Underlying risk and its potential impact	Mitigation actions taken to limit impacts
2021	2022		
1.		<p>Service delivery interruptions <i>(This risk now incorporates energy, water and transport service interruptions)</i></p> <p>Unreliable supply and higher costs of energy, as experienced through load-shedding and municipal infrastructure failure, leading to a loss of production and increased costs. Unreliable supply and deteriorating quality of water could lead to a loss of production and disease outbreaks. Logistics interruptions due to rail, harbour and trucking inefficiencies and disruptions, as well as increasing costs, resulting in increasing business interruptions and costs. The likelihood of protest action interfering with service provision has increased due to increased living costs and social dissatisfaction.</p>	<ul style="list-style-type: none"> ■ The Group Energy Manager leads energy management strategies to improve energy efficiency and implement alternative energy supply such as solar PV and generators. ■ Mpac has 9.4MWp installed and a further 6.7MWp in development. ■ Mpac is monitoring the impact of the Russia/Ukraine conflict on energy prices and supply. ■ There is ongoing communication with Eskom and municipalities to keep abreast of electricity distribution issues. ■ Mpac's paper mills have demand curtailment agreements with Eskom in place of being subject to load-shedding. ■ Mpac can recover increased energy costs except in products competing with international suppliers. ■ Reduction in water consumption is a key performance indicator and investment driver in our manufacturing operations. ■ Recycling takes place at operations in line with Mpac's circular economy ethos. Waste disposal is monitored and reported on. ■ Through our logistics teams, Mpac liaises closely with the trucking industry and has insight into operations at railways and harbours.
2.		<p>Social polarity leading to unrest</p> <p>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"> ■ Mpac has implemented various policies such as the Group Transformation Policy, Code of Ethics, Fair Employment Policy and Promotions Philosophy to ensure equitable employment practices. ■ Other activities include community engagement, corporate social investment programmes, and small business and entrepreneurship development. ■ Mpac actively engages with unions and communities. ■ Mpac's security standards have been audited and updated with the help of specialists. ■ Although the unrest that affected KZN and parts of Gauteng in July 2021 resulted in Mpac's operations in that province closing for eight days and disrupted supply chains, none of our employees or operations was directly harmed.
3.		<p>High cost and shortages of raw materials</p> <p>Prolonged shortages of key raw materials could lead to loss of production, changes to product offerings and/or higher costs. Risks associated with importing raw materials, and on fuel and polymer pricing, increased due to the impact of the Russia/Ukraine conflict on oil prices and 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. ■ Roll out of solar PV and pursuit of other alternative energy sources to reduce the impact of energy costs and supply uncertainties.

Risk management (continued)

Residual risk		Underlying risk and its potential impact	Mitigation actions taken to limit impacts
2021	2022		
4.		<p>Trading environment</p> <p>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. Nonetheless, Mpact has demonstrated resilience to the challenges of COVID-19 in 2021 and the Russia/Ukraine conflict in 2022 which negatively impacted world markets and has driven inflation up due largely to increased fuel and food prices and deteriorating market confidence. Greylisting of South Africa by the Financial Action Task Force (FATF) due to poor governance standards relating to fraud and corruption is expected to negatively impact the trading environment.</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, market development, and continuous improvement in equipment and processes. ■ 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. ■ There was minimal direct impact on Mpact's operations due to the COVID-19 pandemic. ■ The impact of the Russia/Ukraine conflict and its impact on fuel and food pricing and access to international markets for our customers is being monitored closely. ■ Active management of supply chain logistics to contain costs.
5.		<p>Compliance with legislation</p> <p>The business is subject to a broad range of legislation that is ever evolving resulting in increased costs and complexity of compliance and risk of fines and penalties.</p> <p>Mpact operates several industrial sites across the country, some of which have been in operation for many decades and include landfill sites, effluent disposal facilities and storage dams. Evolving legislation may impose additional requirements, process modifications and related costs.</p>	<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 the government via industry bodies. ■ International management standards such as ISO 14001 (environmental) and FSC (wood fibre) are implemented and, for material operations, certificated with the backing of rigorous external environmental legal audits to monitor compliance with NEMA. ■ Mpact Operations achieved Level 1 B-BBEE certification. ■ Mpact is a respondent in an investigation into alleged historic anti-competitive behaviour. As soon as the alleged conduct came to the attention of the Board in 2016, the Company engaged with the Competition Commission and has been co-operating with them since then. In so doing, the Board acted diligently in the best interests of the Company and dealt with the concerns identified cautiously and transparently through applying for corporate leniency. On 15 April 2019 the Commission referred a complaint against the Company to the Competition Tribunal which will be adjudicated in due course, and at which point it will be determined whether or not the conduct concerned contravened the Competition Act. Pursuant to its leniency policy, the Commission is not seeking the imposition of a penalty against Mpact in the complaint referral. ■ The impact of the Sugar Tax and Carbon Tax are understood, and mitigations have been put in place. ■ Mpact is compliant with EPR requirements.

Residual risk		Underlying risk and its potential impact	Mitigation actions taken to limit impacts
2021	2022		
6.		<p>Public resistance to the use of plastics</p> <p>Public concern related to food safety and plastics pollution is increasing. This poses a risk to our FMCG and beverage bottle businesses. Internationally, focus on this issue is likely to be reinvigorated as the COVID-19 pandemic is over. During the pandemic single-use-plastic use increased to meet COVID-19 regulations. If this trend lingers it will refocus attention on the issue of single-use-plastics in the environment.</p>	<ul style="list-style-type: none"> ■ Mpact is well structured to demonstrate circular economy principles by recycling both paper and plastics materials. ■ 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 Paper Converting business is making cardboard trays to replace polystyrene in dry applications. ■ Mpact is selling the Versapak business.
7.	New 	<p>Major capital project</p> <p>Mpact continues to grow the business through major investments in capital projects. In 2023 we embark on an R1.2bn investment in the Mkhondo Mill.</p>	<p>In addressing the risks associated with capital investment projects the following are some of the key considerations included in the risk and sensitivity analysis of projects:</p> <ul style="list-style-type: none"> ■ Exchange rate fluctuations ■ Market demand and price of the intended product ■ Local community engagement ■ Legislative requirements such as EIAs ■ Technical risks including: <ul style="list-style-type: none"> – Concept development and feasibility studies – Pre-engineering and process flow and design – Detailed comparison of equipment offers – Robustness and track record of suppliers and equipment – Performance guarantees – Comparative technologies and costs – Engagement with technical specialists across all relevant disciplines
8.		<p>System failures</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 provide guidelines to all operations on fire protection, security, emergency preparedness and environmental management. ■ Mpact 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. ■ Security and Emergency Response Standards have been extensively reviewed. ■ Mpact is improving the modernisation and standardisation of security measures such as camera systems with facial recognition and artificial intelligence. ■ Debtors and bad debt provisions are managed and reviewed proactively.
9.		<p>Workforce cost and stability</p> <p>Loss of key skills and institutional knowledge due to emigration and employees seeking better prospects elsewhere. Strikes and cost increases above inflation could lead to a loss of productivity and the ability to produce quality products competitively. Staff movement is less likely in light of national and international uncertainty.</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. ■ Incentive programmes are in place to retain key staff.

Risk management (continued)

Residual risk		Underlying risk and its potential impact	Mitigation actions taken to limit impacts
2021	2022		
10.		<p>Safety in the workplace Injuries from workplace accidents could affect the wellbeing of employees and contractors leading to loss of skills, reduced production, lower morale and reputational damage. Although the impact on safety caused by COVID-19-related stresses has passed, the current instability, driven to some extent by the Russia/Ukraine conflict, is a concern as stress is a known contributor to safety incidents.</p>	<ul style="list-style-type: none"> Senior management demonstrates a primary focus on safety through the CEO's Safety Philosophy, and the SHE Policy and gives direction through the quarterly SHE Management Committee meetings. 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. The Safety Culture Leadership programme is rolling out across the business emphasising a people-centric approach to safety. Mpact 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.
11.		<p>Critical plant and equipment 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. The Group also has machinery breakdown insurance cover on critical items of the plant. A programme of plant and equipment upgrades has improved the overall reliability of equipment.
12.		<p>Reputational damage Damage to Mpact's reputation could arise from public perceptions regarding certain products, false news, or ethical issues arising within the Group.</p>	<ul style="list-style-type: none"> Mpact monitors public opinion regarding its products, particularly plastics, and responds with accurate information. Mpact 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 Mpact. Sites that supply food contact packaging are certificated to international food safety standards. Mpact also operates a highly skilled and equipped food safety research laboratory. Mpact works closely with industry bodies in the paper, plastics and recycling industries to ensure development and alignment with best practices.

Risks arising from conduct of major shareholder

As shareholders are aware, Caxton (Mpac's largest shareholder) has announced its intention to acquire control of the Company. Various issues and potential risks for the Company, as summarised below, have arisen as a consequence of Caxton's conduct.

Blocking key special resolutions

Special resolutions require the support of 75% of voting shareholders to pass. Caxton and related parties collectively own approximately 34% of Mpac.

At Mpac's AGM held on 2 June 2022, Caxton voted against and hence blocked the resolutions authorising Non-executive Directors' remuneration and renewing Mpac's existing general authority to provide financial assistance to its subsidiaries in terms of sections 44 and 45 of the Companies Act. Caxton's conduct has the potential to undermine the functions and governance of Mpac, by preventing it from providing financial assistance to its subsidiaries and from paying its Non-executive Directors.

The Company has taken steps to mitigate the effects of Caxton's conduct to the extent possible, including the appointment of Non-executive Directors to the Board of Mpac Operations and their remuneration by Mpac Operations for services rendered to Mpac Operations. Caxton challenged the appointment of the Non-executive Directors to the Mpac Operations Board by serving Mpac (and Mpac Operations) with a demand in terms of section 165(2) of the Companies Act to, inter alia, remove the Non-executive Directors from the Board of Mpac Operations and take steps to have Mpac Operations recover any remuneration paid to such Non-executive Directors by Mpac Operations. Pursuant thereto, Mpac appointed Adv Frank Snyckers SC as the independent and impartial person in terms of section 165(4) (a) of the Act. The report issued by Adv Frank Snyckers SC on 3 April 2023 indicated, unequivocally, that Mpac should not comply with or take the steps demanded of it in the section 165(2) demand, principally as it does not appear to be in the best interests of either Mpac or Mpac Operations to take steps to litigate to seek to have the impugned resolutions set aside or terminated (and the Report concludes that "[i]t is in any event unlikely that a court would find the impugned resolutions and

appointments to be invalid"). Having considered the report, the Board has subsequently notified Caxton that it will not be complying with the demands made by Caxton.

The Company has continued to rely on its existing authority to provide financial assistance, which was granted at the previous AGM held on 3 June 2021 and remains valid for two years after its adoption. Further, the Company's existing committed borrowing facilities will not be affected in the event that the section 44/45 resolution (which relates to the provision of financial assistance) is not passed at the June 2023 AGM.

Reputational damage

Caxton has used various public platforms (including the media and SENS) to disseminate false and misleading narratives and information about the Company. In addition to on-going monitoring of the media and responding publicly wherever appropriate, the Company has invoked the protection of the applicable regulators wherever appropriate and will continue to do so. For example, the Company drew Caxton's announcements to the attention of the Takeover Regulation Panel (TRP), which then prohibited Caxton from making any public statements or announcements in any form and on any platform about the acquisition of Mpac without the approval of the TRP.

Customer flight

In the course of proceedings before the Competition Authorities, a significant customer of Mpac's paper division known as the Golden Era group (GE) confidentially registered its opposition to Caxton's proposed acquisition of control of Mpac. GE indicated that, in the event that Caxton received permission to submit a separate merger filing, GE would start taking steps for the purpose of ultimately securing a future alternative supply of paper but this would involve a costly and lengthy process for GE. At the time, the Board carefully considered the information about GE's possible future diversion of its purchases away from Mpac and the Board could not conclude, in the circumstances, that Mpac is likely to lose GE as a customer.

Following a complaint by Caxton to the JSE regarding the alleged non-disclosure of price sensitive information by the Board, the JSE dismissed Caxton's complaint. The full details relating to this matter and the Board's assessment thereof are set out in Mpac's SENS announcement of 17 October 2022.

Risk management (continued)

Opportunities

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

Our investment in the Mkhondo Mill is aimed at meeting the growing demand for semi-chemical fluting for the agricultural sector, particularly South Africa's growing fruit exports. This is in line with the investments we have made particularly in the Gqeberha Corrugated plant and in building the Groblersdal warehouse and box erecting facility in 2022 and in the Mbombela Corrugated plant in 2023. The Mkhondo Mill project includes facilities to manufacture lignosulphonate, extracted from the wood pulping process. Lignosulphonate is used in detergents and concrete additives.

Expansion of our Mpact Plastics Containers (MPC) business through the Brits Recycling plant, which enhances Mpact's circular economy model, and the Castleview plant and warehouse, positions MPC to provide enhanced products and service delivery to customers.

Process innovations

An extensive programme of investing in new equipment and equipment refurbishments across our Paper and Plastics businesses over the past few years has resulted in improved performance as well as lower energy use and environmental footprints, particularly with regard to greenhouse gas emissions, water use and wastewater disposal.

Significant reductions in energy and water use have enabled Mpact to exceed energy, carbon emission and water use targets.

Product innovation

In combination our design centres have created the flexibility to produce food safe paper product substitutes for single-use-

plastics (such as shopping bags, plastic punnets and single use cups) as well as packaging and logistic solutions that are redefining the way fruit and other products are packaged, shipped and displayed nationally and internationally.

Incorporation of circular economy principles to continually improve recyclability, recycling collection and recycled content in our products also keeps our customers on the forefront with sustainable packaging.

With these production and sustainability enhancements, Mpact is well placed to offer smarter, sustainable, solutions to customers.

Daliso is a Black-owned business, in which Mpact is a minority shareholder, that was established to produce and market by-products from the Mkhondo Mill. Their purpose is to convert products that were difficult to dispose of into value added commodities. Daliso sells a liquid dust suppression product to open cast mines. They have also successfully commissioned a facility at the Mkhondo Mill that converts a waste product of the mill into high quality industrial sodium sulphate. This project has unlocked the potential to enhance Mkhondo's pulp production capacity.

Mpact has made the most of its capital investments over the past few years to maintain and grow its strong market position making the most of opportunities to unlock stakeholder value.

Emerging risks

South Africa faces many challenges including the rising cost of living, the frustrations and financial impact of load-shedding, the spectres of state capture, corruption and poor governance. In some of this we are not alone with the World Economic Forum risk survey identifying "Energy supply crisis", "Cost of living crisis", "Rising inflation" and "Food supply crisis" as being among the top risks internationally. The Russia/Ukraine conflict lingers and threatens to increase polarisation at a global level on top of the energy and food supply and cost impact it is having.

With this in mind, the following items are on Mpact's risk radar:

1. The Russia/Ukraine conflict and its impact on global polarisation, fuel and polymer prices, food prices, disruption to global supply chains, the impact on markets of sanctions against Russia, inflation rate increases internationally.
2. Increasing instability in South Africa driven by the load-shedding crisis, the State Capture Commission report, the President's Phala Phala robbery revelations, greylisting of the country, among other factors. What role will these factors play as the country prepares for the National elections in 2024.