



smarter, sustainable solutions

2014

Risk Management Review

for the year ended 31 December

Risk Management Review

Management continuously develops and enhances the Group's risk and control procedures to improve the mechanisms for identifying, assessing and monitoring risks. Effective risk management is integral to the Group's objective of consistently adding value to the business.



RISK MANAGEMENT

The Board approves strategies and budgets and monitors progress against the budget. It also considers the identified business risks.

Risk management is addressed in the areas of physical and operational risks, human resource risks, technology risks, business continuity and disaster recovery risks, credit and market risks and compliance risks, amongst others.

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

- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of assets; and
- compliance with laws, regulations and contracts.

Risks are reviewed and updated on a regular basis. The risks are outlined on pages 17 to 19 of the 2014 Integrated Report, as well as on pages 5 to 7 of this review.

INSURANCE

Insurance arrangements are reviewed annually by the Audit and Risk Committee and appropriate insurance cover is in place to cover all material risks.

RISK AND OPPORTUNITY ASSESSMENT

The Board annually assesses its approach to risk tolerance and appetite levels. The Board refined the Group's Enterprise Risk Management Policy and Framework during the year and this is set out on page 3 of this review. The opportunities identified during the year are also tabled to ensure that all opportunities identified are in line with the Group's stated strategy.

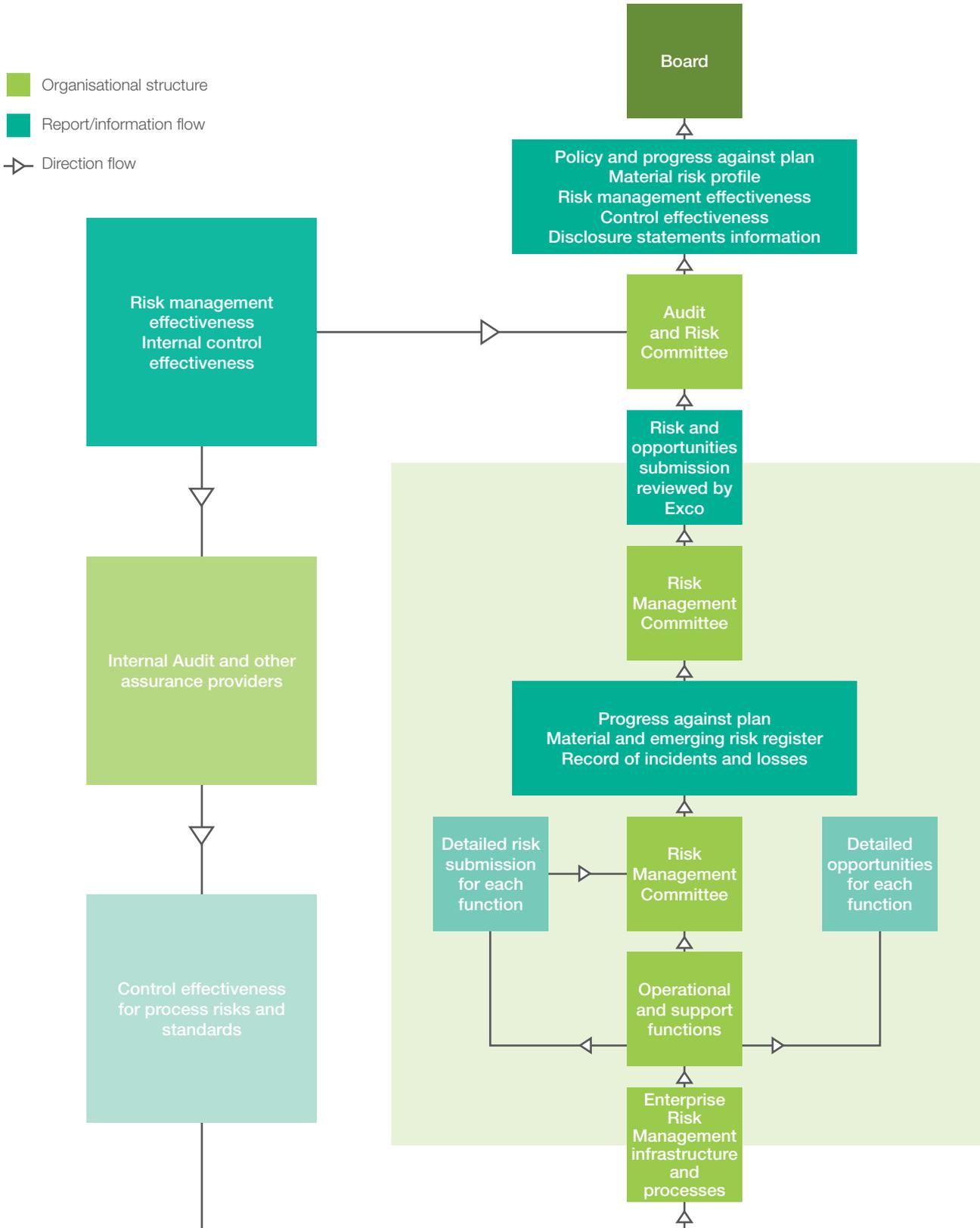
RISK MANAGEMENT AND OPPORTUNITIES REVIEW FOR 2014

In preparation for the 2014 Integrated Report, the Audit and Risk Committee reviewed the risk management function, policy and framework, which were recommended to the Board for approval.

The risk assessment and management processes have been refined to ensure that every business within the Group takes responsibility for the management of its risks. This was done to encourage proactive action by the business units when faced with risks as well as opportunities.

Neil Hunt is the Risk and Sustainability Manager for the Group.

RISK MANAGEMENT REPORTING STRUCTURE





ENTERPRISE RISK MANAGEMENT POLICY AND FRAMEWORK

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.

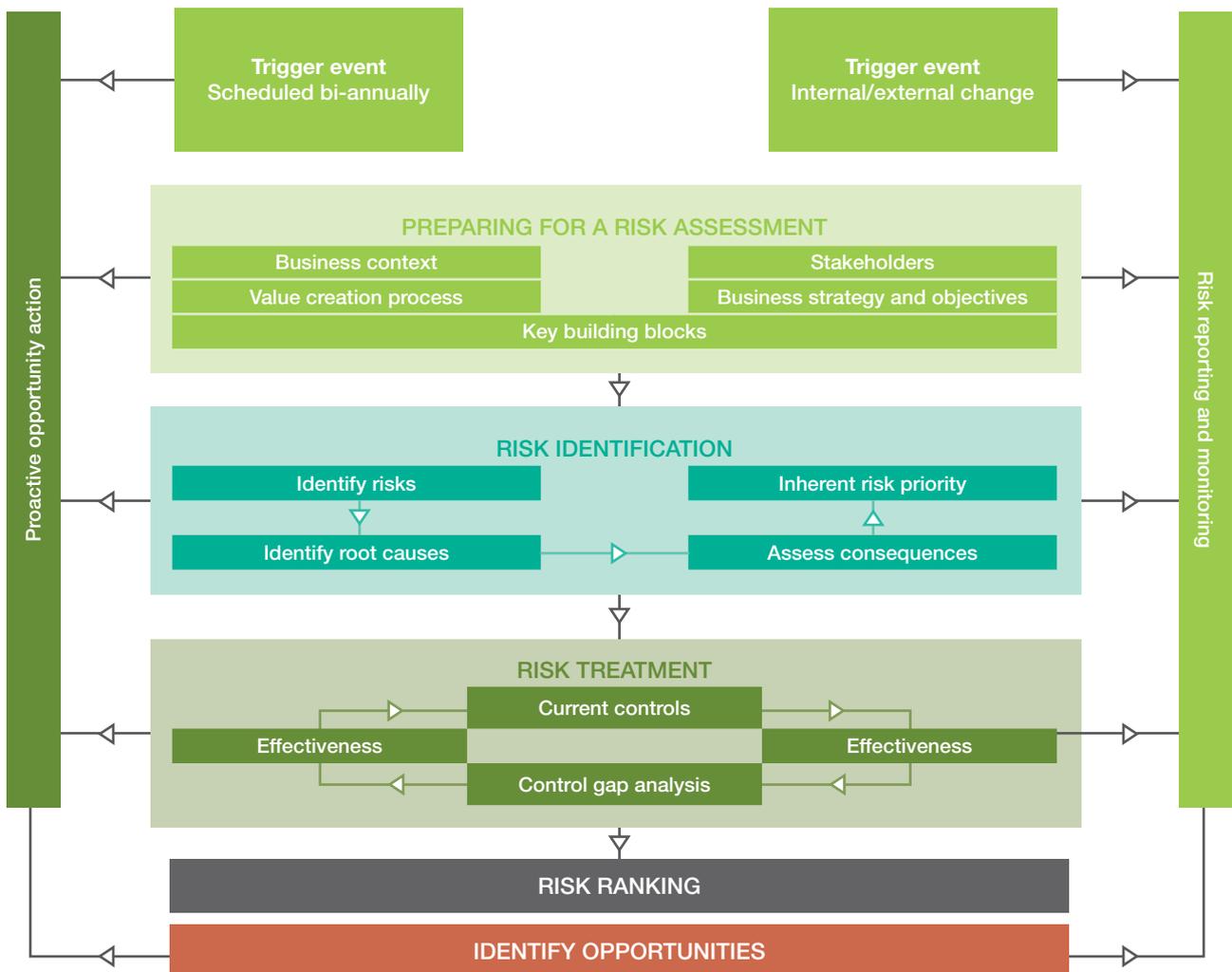
Mpact aims to create superior value and benefits on a sustainable basis across commodity cycles for all stakeholders. The pursuit of these objectives is dependent on the diligent management of risk. Particularly important is determining how much uncertainty to accept, as uncertainty presents both risk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

The Board retains responsibility and accountability for the overall risk management process, setting risk appetite and tolerance limits. 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 that the appropriate management of major risks is undertaken. Management is accountable to the Audit and Risk Committee and ensures the implementation of the risk management process, working with the relevant staff within the business.

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

ENTERPRISE RISK MANAGEMENT CYCLE

The Enterprise Risk Management Cycle indicates how the risk management process is used within the various business areas. The output of this process will provide information used by the various structures as documented in the Enterprise Risk Policy and Framework and is illustrated below:



The diagram on page 3 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	<p>Consideration is given to:</p> <ul style="list-style-type: none"> • 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 a 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	<ul style="list-style-type: none"> • Each risk is reviewed in the context of the mitigating controls that are in place as a preventative measure. • Appropriate action is then determined based on the level of residual 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	The material risks to the business are highlighted for prioritisation by management.
Reporting and monitoring of risks	The management and monitoring of material risks is reported to the Audit and Risk Committee as well as the Board.

Material Issues and Opportunities

MATERIAL ISSUES

In line with the Group's approach to improving upon and managing a sustainable business, Mpact appointed a Risk and Sustainability Manager, Neil Hunt. He has overall responsibility for overseeing the risk management process. The risk assessment process follows a "bottom-up" approach, with the input by each operation assessed by the Risk Management Committee, and then in turn by the Audit and Risk Committee.

In this way, the most critical underlying material risks that the Group faces are identified, and the mitigating actions to reduce these risks are assessed.

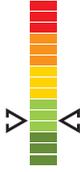
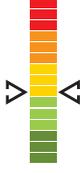
The full Risk Management Review for the year ended 31 December 2014 is set out in detail on the company's website, www.mpact.co.za.

At the Audit and Risk Committee meeting held on 11 November 2014, the committee approved the table below, which is an extract of the major risks as defined in the Group's risk register.

Underlying risks and their potential impacts	Mitigation actions taken to limit impacts	Status
<p>Prolonged shortages of key raw materials, such as containerboard, polymers and fibre, could lead to loss of production, alteration of product offerings, or higher costs.</p>	<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. 	
<p>Unreliable supply and higher cost of energy and water could lead to loss of production and increased costs.</p>	<ul style="list-style-type: none"> Energy efficiency projects and demand planning strategies have been implemented where feasible across the Group. Reduction in water consumption is a key performance indicator and investment driver, particularly in the paper mills. 	
<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. 	

Risk barometer	
 UNSATISFACTORY	 GOOD
 WEAK	 VERY GOOD
 SATISFACTORY	

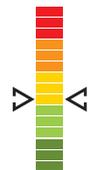
Material Issues and Opportunities (continued)

Underlying risks and their potential impacts	Mitigation actions taken to limit impacts	Status
<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. All businesses participate in industry collective bargaining forums, and have regular interactions with employees through formal channels such as transformation committees to resolve labour-related matters. Apprentices, production trainees and engineering graduates are regularly recruited and trained in the business to provide a sustainable supply of skilled personnel. Bursaries and other study opportunities are also offered to employees and school leavers. The Group has allowances and other incentives in place to retain scarce skills and has an established succession planning process. Adherence to health and safety standards are supported by several programmes applied across the Group. 	
<p>Mpact operates in an uncertain and competitive trading environment in which dependence on major customers, excess capacity, competitively priced imports and subdued growth across the sector could result in reduced sales volumes or selling prices and lead to a loss of profits.</p>	<ul style="list-style-type: none"> Annual supply agreements are sought with volume incentives and competitive pricing. Mpact places an emphasis on product quality with manufacturing sites being certificated to the ISO 9001 standard. The Group continuously develops alternative domestic and export markets to maintain economies of scale. Continued development of a diversified product offering of both paper and plastic packaging to various market sectors. Investment in R&D and other innovation through the design centres and the Stellenbosch University research facility. Benchmarking of product performance, cost and quality across sectors. 	
<p>More stringent and changing legislation has the potential to increase costs of compliance and risk of fines and penalties. Legislation includes, but is not limited to, environmental, tax, competition, labour, occupational health and safety, employment equity, black economic empowerment, land claims and industry-specific requirements.</p>	<ul style="list-style-type: none"> Full-time legal and tax specialists are employed within the Group and relevant experts are engaged where required. A comprehensive programme has been implemented throughout the business to ensure vigilance and adherence to laws and company standards relating to health and safety. The Group has compiled a regulatory universe to prioritise and monitor legal compliance. This includes a management booklet on relevant laws and safety, health and environmental legal registers. Training of employees is also provided where required. Internal and external audits are conducted periodically, as well as statutory inspections by competent authorities where applicable. The Group engages with the authorities through the relevant industry bodies and other forums to provide meaningful inputs into development of relevant legislation. All the larger manufacturing sites are certificated to the ISO 14001 Environmental Management Standard which requires environmental legal compliance as a minimum standard. 	

Underlying risks and their potential impacts	Mitigation actions taken to limit impacts	Status
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Catastrophic systems failure, fires, floods and breaches of ICT security could lead to prolonged production and distribution interruptions, as well as increased costs of working and capital replacement costs.

- The Mpact Risk Control Standards include fire risk management standards that are applied at all operations to prevent fires and ensure quick reaction in the event of fire. Operations are audited against these standards.
- Business Continuity Plans have been developed at various levels in the business to ensure business disruption is minimised in the event of a catastrophe.
- The Group has a comprehensive insurance programme which covers catastrophic loss.
- The ICT system is designed with redundancy to mitigate the risk of complete system failure; system back-ups are made on a scheduled basis and a disaster recovery plan forms part of ICT's business continuity planning.
- Continuous improvement in own manufacturing facilities to optimise costs and improve product performance.



Responding to the potential Carbon Tax implementation

Government is contemplating implementation of a Carbon Tax as part of its mix of measures to drive carbon emission reductions in line with its international commitments. The details of how the Carbon Tax will work are still uncertain as Government is working to develop carbon budgets for industries that meet its "Peak", "Plateau" and "Decline" projections and the Desired Emission Reduction Outcomes are being developed for each sector of the economy. The process is complex and time consuming but it is still anticipated that the first five-year Carbon Tax strategy may only come into effect in 2016.

Mpact has responded to this by actively engaging with Government through industry associations to understand and give input to the process. Mpact is also taking a close look at its energy and carbon footprint and working to reduce these. Significant progress has been made already through various interventions and investments. Mpact is also looking in the longer term at cogeneration and green energy options to further reduce its carbon emissions. Mpact launched the Energy Centre of Excellence in 2014 that draws energy experts from across the business, as well as external energy specialists together to drive energy reductions and green energy generation options.

OPPORTUNITIES

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

Various opportunities were identified during the year. The Group acquired a 51% interest Pyramid, a paper bag and sack manufacturer located in Gaborone, Botswana during the year. Although the acquisition is relatively small, it will enhance and diversify the Group's product offering as well as broaden its geographical footprint in Africa.

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

The R765 million-upgrade of Mpact's Felixton Mill, situated near Empangeni in KwaZulu-Natal, to enhance its product offering and cost competitiveness in line with global trends and to increase capacity, is well underway. Improvements in energy efficiency and the mill's environmental footprint will also be realised. The first phase, is expected to be completed on time and within budget during the first half of 2015, with the last phase to be completed in 2017.

Mpact established Mpact Polymers during the year, and with the IDC as 21% shareholder in this business, will be commissioning a PET recycling plant in the second half of the 2015 financial year. As Mpact is one of the leading waste paper collectors in South Africa, the same facilities and operations will be leveraged to collect waste PET products. Mpact will require 29,000 tonnes of waste PET to produce 21,000 tonnes of rPET annually, which will contribute to job creation in the recycling industry, reduce raw material costs to some degree and improve Mpact's, its customers' and the community's waste PET impact on the environment.

Mpact's Stellenbosch-based R&D centre ensures that innovative product opportunities are continuously being explored and tested for corrugated board and cartonboard packaging, which is manufactured with a particular emphasis on consumer safety.

Regular refurbishment of machinery and ongoing investment in the paper mills and manufacturing plants is undertaken in order to improve efficiencies, enhance global cost competitiveness, expand output capacity as well as comply with environmental legislation.

Despite the many challenges being faced in the South African economy as well as market place, Mpact has a strong market position and with the motivated Mpact team believes that there are many good opportunities to continue to grow the business and unlock stakeholder value.



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