

Risk management

Risk management is an essential aspect of Mpac's governance framework and support's the continued ability of the Company to create superior value and sustainable benefits for all 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;
- reputation (ethics, environment, customer safety), CSI;
- 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 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 64 to 67.

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.

In this process, it is particularly important to determine 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, 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 business to ensure the implementation of the risk management process.

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.

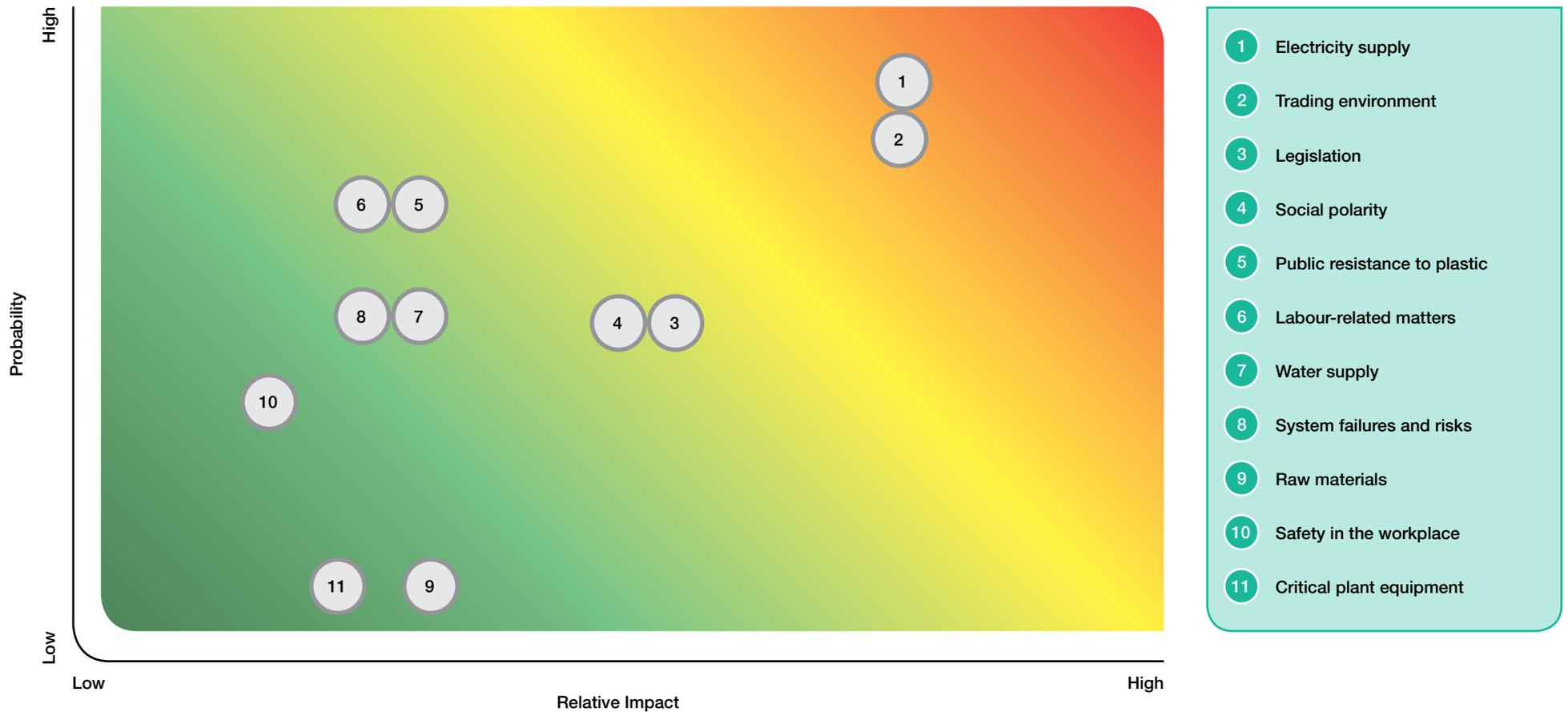
The Enterprise Risk Management Framework sets out the approach to be taken to address and improve risk management to achieve Mpac's objectives.

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 MpacT are set out in the table on pages 64 to 67. These risks were approved by the Audit and Risk Committee on 27 February 2020.

Residual Risk Heat Map



Material risks continued

2018	2019	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.</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 waste-to-energy solutions. Mpact has installed 1 700kWp of rooftop solar PV and has plans for a further 7.3MWp. Operations are reviewing production schedules and inventory levels to mitigate the effects of load shedding, where possible. Ongoing communication with Eskom and municipalities to keep abreast of electricity distribution issues.
		<p>2. 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>	<ul style="list-style-type: none"> Maintaining our leading market position by supplying quality products and service through: <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 with respect to quality, environment and food safety. Continuous improvement of, and investment in, equipment and processes.
		<p>3. Legislation Evolving 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 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 has 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.

2018	2019	Underlying risk and its potential impact	Mitigation actions taken to limit impacts
		<p>4. Social polarity: wage gap, race and gender, social stress of the working class</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"> Mpact has implemented various policies such as 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.
		<p>5. Public resistance to use of plastics</p> <p>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 trays, films and beverage bottle businesses.</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. Mpact is also investigating end-of-life solutions for plastics, such as waste-to-energy and pyrolysis.
		<p>6. Labour-related matters</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"> Mpact upholds fair labour practices with respect to 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. Water supply</p> <p>Unreliable supply and deteriorating quality of water could lead to a loss of production and disease outbreaks among workers. This has been exacerbated by the severe drought conditions that have plagued various regions since 2015.</p>	<ul style="list-style-type: none"> Reduction in water consumption is a key performance indicator and investment driver at manufacturing sites. Operations subject to water restrictions during the droughts in various regions were able to respond with water savings that exceeded requirements. Mpact has exceeded the target of reducing water consumption by 20% by 2020 against the baseline year of 2012.

Material risks continued

2018	2019	Underlying risk and its potential impact	Mitigation actions taken to limit impacts
		<p>8. System failures and risks 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 M'pact Risk Control Standards provide guidelines to all operations on fire protection, security, emergency preparedness and environmental management. M'pact 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>9. Raw materials Prolonged shortages of key raw materials could lead to loss of production, changes to product offerings and/or higher costs.</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>10. Safety in the workplace Injuries from workplace accidents could affect the wellbeing of employees and contractors, loss of skills, reduced production, lower morale and reputational damage.</p>	<ul style="list-style-type: none"> Senior management demonstrate a primary focus on safety through the CEO's Safety Philosophy and SHE Policy. Operational management reinforce this by ensuring effective safety standards and procedures are in place. The Group drives safety through various physical, procedural and behavioural interventions and programmes. M'pact has engaged Life EHS to provide a 24/7 call centre and counselling service to assist employees with stress factors in their lives.
		<p>11. Critical plant 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 plant. A programme of plant and equipment upgrades has improved overall reliability of equipment.



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.

Process innovations

Major rebuilds of our Felixton Mill and Port Elizabeth corrugating plant as well as an extensive programme of investing in new equipment and equipment refurbishments across our Paper and Plastics businesses over the past few years, have 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.

Product innovations

Mpact's comprehensive product innovation capabilities including the Stellenbosch R&D team, Plastics innovation hub, Plastic Containers design team and the paper converting (Corrugated and Detpak) design teams, has enabled the Group to routinely develop award winning products and services. In combination these design centres have created the flexibility to produce food safe paper products substitutes for single use plastics (such as shopping bags 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.

Dalisu is a B-BBEE business that was established out of Mpact to market by-products from the Piet Retief Mill. Their purpose is to convert products that were difficult to dispose of into value added commodities. One of their products is already well received in the mining industry and a processing plant to produce a second product is under construction and will be commissioned in 2020 to produce an additive primarily for the detergent industry. This initiative will also enhance the Piet Retief mill's pulp production capacity.

Despite the challenging economic environment, Mpact has maintained a strong market position and believes the investments made in our business position us to realise opportunities to continue to grow the business and unlock stakeholder value.

Emerging risks

The emergence of COVID-19 in late 2019 and the impact it has had on humanity and business since is undoubtedly the greatest risk Mpact currently faces and it is the highest ranked risk in our 2020 risk register.

Mpact takes the threat of COVID-19 extremely seriously and welcomes the measures announced by President Ramaphosa on 23 March 2020. We are monitoring the progression of the disease and recommendations from the World Health Organisation, Department of Health and National Institute of Communicable Diseases closely.

Our primary concern is the wellbeing of our employees, contractors and their families, and safely meeting our customers' requirements. This is expressed firstly in our efforts and contribution to minimising the spread of COVID-19 and secondly in ensuring we do what we can to limit the impact of the pandemic on our national economy.

Mpact's interventions to protect the workforce are founded on the following principles:

- Education
- Social distancing
- Increased personal hygiene and housekeeping
- Allowing only essential visitors to sites
- Limiting travel to essential travel only
- Requiring sick employees to quarantine

Mpact employs the services of Life Employee Health Solutions (EHS), who supply our clinic and wellness call centre services, to ensure we have the latest possible medical information and support to protect our employees and contractors.