

# MATERIAL RISKS AND OPPORTUNITIES PERTAINING TO SUSTAINABILITY

## RISK MANAGEMENT

In line with the Group's approach to improving upon and managing a sustainable business, the risk assessment process follows a "bottom-up" approach. Each division maintains registers of strategic risks relevant to their business. These risks are aggregated into a Group Risk Register that is reviewed quarterly by the Risk Management Committee and the Audit and Risk Committee. Key risks are also reported to the Social and Ethics Committee of the Board. The Group Risk and Sustainability Manager, Neil Hunt, has overall responsibility for overseeing this process. External audits of these processes also take place routinely as noted below.

Operational risks faced by the business include financial, material supply, customer satisfaction, product quality, safety, health, environmental, food safety, fire and security

Compliance with national legislation is fundamental to the principles of Mpact and the standards to which the Group subscribes. To this end, Mpact subscribes to Environmental and Safety Legal Registers that keep the business abreast of changes in legislation. In 2014, Mpact commissioned the compilation of a management booklet summarising all legislation pertinent to its operations.

The Group has identified the material risks that it faces and whether actions to mitigate these risks are sufficient and appropriate.

Risks pertaining to sustainability and corresponding mitigating actions are highlighted in the table below:

Underlying risk and its potential impact	Mitigation actions taken to limit impacts
<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"> <li>• National Environmental Management Act and the affiliated Water and Waste Acts</li> <li>• Waste levies</li> <li>• Carbon tax, Carbon Budgets, and Pollution Prevention Plan Regulations</li> <li>• Competition compliance</li> <li>• BEE and EE regulations</li> <li>• Tax regulations</li> <li>• Labour Act and regulations</li> <li>• OHSAct</li> <li>• Sugar Tax</li> </ul>	<ul style="list-style-type: none"> <li>• Mpact addresses these concerns by retaining full time experts in relevant disciplines such as law and tax who assist in maintaining vigilance and compliance.</li> <li>• In addition to existing safety and environmental legal registers, a management booklet on laws pertinent to the Group has been compiled.</li> <li>• A rigorous schedule of internal and external audits and statutory inspections across all disciplines monitors compliance.</li> <li>• The Group also contributes to the development of legislation by engaging with Government via industry bodies.</li> <li>• 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.</li> <li>• 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.</li> <li>• Launched the Mpact Foundation Trust.</li> <li>• Management are engaging with a Competition Commission investigation initiated in 2016 that implicated Mpact .</li> </ul>
<p>Unreliable supply and deteriorating quality of water could lead to a loss of production and disease outbreak among workers.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Reduction in water consumption is a key performance indicator and investment driver, particularly in the paper mills and at Mpact Polymers.</li> <li>• All operations keep abreast of water supply and quality issues in their areas.</li> <li>• Felixton mill was subject to water restrictions in 2016 but managed to meet these without loss of production.</li> <li>• The drought in the Western Cape is a concern and the effects are being monitored.</li> </ul>
<p>Prolonged shortages of key raw materials, such as virgin and recycled fibre, containerboard, and polymers, could lead to loss of production, alteration of product offerings, or higher costs.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Ongoing Investment in Mpact Polymers recycled PET will contribute to increased material supply security.</li> <li>• Mpact participates in active industry wide lobbying to influence government legislation to enable the recycling industry.</li> <li>• Working with local government to secure access to recyclable paper and plastic.</li> <li>• The purchase of Remade in 2016 has greatly increased Mpact's access to recyclables.</li> <li>• Retain market position as leading paper recycler in South Africa and preferred buyer of recovered paper.</li> </ul>

# MATERIAL RISKS AND OPPORTUNITIES PERTAINING TO SUSTAINABILITY CONTINUED

Underlying risk and its potential impact	Mitigation actions taken to limit impacts
<p>Unreliable supply and higher costs of energy could lead to a loss of production and increased costs.</p> <p>The situation improved in 2016 with no Eskom load shedding though some operations did suffer some power outages due to failure of distribution infrastructure.</p>	<ul style="list-style-type: none"> <li>• Energy efficiency projects and demand planning strategies have been implemented where feasible across the Group</li> <li>• An Energy Manager has been appointed to lead energy management strategies across the Group</li> <li>• Ongoing communication with Eskom and municipalities.</li> </ul>

Opportunities identified
Expansion of the Recycling division into the collection and recycling of plastic products
New opportunities for local beneficiation of raw materials, namely black liquor and liquid packaging material
Greater opportunities to export into SADC countries
Opportunities for optimisation and expansion with upgraded plant and equipment
Opportunities to procure green energy technologies
Acquisition opportunities in converted paper products