

Introduction

Mpact is committed to sustainability principles, which underpin its business strategy, financial performance and operations. Management believes that the Group's leading market positions can only be maintained with business practices that are based on long-term sustainable development. In order to give effect to this, Mpact focuses on three key elements of sustainability – economic, social and environmental.

This Sustainability Review describes how Mpact practices and implements these principles where it has direct influence and impact on communities and environments. Mpact's efforts to uphold the principles of sustainability, corporate governance and social responsibility have been recognised by the inclusion of Mpact on the JSE SRI Index in November 2013.

Sustainability business principles

While Mpact has developed a strong corporate culture of sustainable business practice, the Group is not complacent regarding its current performance and responsibility, and is dedicated to continuous improvement in sustainability.

The Group will strive to realise its vision of being a leading business with the highest ethical standards and delivering exceptional value for its customers, employees, communities and shareholders.

Managing the Group's activities in accordance with the principles of sustainable development makes good business sense. Mpact is therefore committed to being open and transparent, and to listening to the views of others as it moves forward. For this reason, you are invited to write to Mpact (DLChapman@mpact.co.za) with any comments and suggestions you may have after reading this Review.

Social and Ethics Committee Report

The signed Social and Ethics Committee Report can be found on page 48 of the Integrated Report and is also available on Mpact's website at www.mpact.co.za.

For a comprehensive understanding of Mpact's approach to and policy on sustainability, more detail is provided in this review.

Management's approach to sustainability

The economic, social and environmental implications of business are more important than ever. In a world where populations are

growing, natural resources are under pressure, communities are forced to do more with less and consumers' expectations are changing, Mpact understands that sustainability is core to its business continuity and how it creates long-term value.

At Mpact, one of the fundamental tenets of the business is that of being a responsible corporate citizen manifesting in the creation of long-term value for stakeholders. This commitment is outlined in the Group vision and values, set out in its 2013 Integrated Report.

Sustainability results from the incorporation of the sound management of the commercial, economic, social and environmental dimensions of the business into the Group's corporate governance commitment.

Mpact's Sustainability Policy and its Code of Ethics provides a blueprint for employees, suppliers and partners. Mpact believes the only way of achieving its strategy and reaching its targets is by ensuring that it follows sustainable business practices.

Preferential procurement

Mpact strives to support the South African economy through the procurement of locally-produced goods and services as much as is possible. The Group is also focused on increasing its support for small to medium enterprises and black woman-owned suppliers.

Procurement spent with companies with:

- at least 50% black ownership – R670 million (2012: R439 million)
- at least 30% black women ownership – R139 million (2012: R64 million)
- Emerging Micro Enterprises (EME) and Qualifying Small Enterprises (QSE) – R389 million (2012: R319 million)

The success of these initiatives is reflected in Mpact's achievement of a score of 18.77 (2012: 18.16) out of 20 points for preferential procurement on its B-BBEE certificate.

Introduction (continued)

Sustainability challenges

Mpact reassessed the identified material issues to the business and at the Audit and Risk Committee meeting held on 1 November 2013, confirmed that no new ones had been identified. The issues set out below are still material to the business.

Description of underlying risk and related impact	Mitigating actions taken to limit impacts
Input risks	
<p>Prolonged shortages of key raw materials could lead to loss of production, forced change of product offerings and/or higher costs to secure constrained supply. Key raw materials include containerboard, polymers and fibre for papermaking.</p>	<ul style="list-style-type: none"> • Where feasible, long-term supply agreements with multiple suppliers with several production facilities are sought. In addition certain production processes are able to utilise alternative raw materials. Mpact also collects waste paper from a variety of sources.
<p>Unreliable supply and higher cost of energy and water supplied from external sources could lead to loss of production and higher costs.</p>	<ul style="list-style-type: none"> • Energy efficiency projects have been prioritised across the Group and demand planning has been implemented where feasible. • Water consumption remains a key performance indicator in the paper mills and several capital investments have been made to reduce consumption.
<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 replacement/repair. Capital is allocated annually for the proactive replacement/upgrade of plant and equipment. The Group also has machinery breakdown insurance cover.
<p>Labour-related matters such as strikes, unrest, loss of key skills and cost increases above inflation could lead to loss of production and the inability to produce quality products on a competitive basis.</p>	<ul style="list-style-type: none"> • The business upholds fair labour practices which go beyond minimum legal requirements. • All businesses participate in industry collective bargaining forums. Operations have regular interactions with employees through formal channels such as transformation committees to resolve labour-related matters. • Trainees and 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 arrangements in place to retain scarce skills and has an established succession planning process. Productivity improvement is a key consideration in the annual budgeting process and when making capital investments. • Several programmes have been implemented across the business to ensure vigilance and adherence to established standards relating to health and safety.

Introduction (continued)

Description of underlying risk and related impact	Mitigating actions taken to limit impacts
Outputs	
<p>Impact operates in an uncertain and competitive trading environment in which reduced sales volumes and/or selling prices could result in loss of profits. Volume and price risks arise from the dependence on major customers, excess capacity, competitively priced imports, substitution and subdued growth across the sector.</p>	<ul style="list-style-type: none"> • Annual supply agreements are sought with volume incentives and competitive pricing. • Development of alternative domestic and export markets to maintain economies of scale. • Continue to develop a diversified product offering of both paper and plastic packaging to various market sectors. • Investment in research and development and other innovation such as design centres and the Stellenbosch University research facility. • Benchmarking of product performance, cost and quality across sectors. • Continuous improvement in own manufacturing facilities to optimise costs and improve product performance.
Compliance	
<p>More stringent and changing legislation has the potential to increase costs of compliance and risk of fines and penalties. Relevant legislation includes, but is not limited to, environmental, tax, competition, labour, occupational health and safety, employment equity, BEE, 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. • An entrenched safety and health 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. 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 discussions around relevant legislation.
Catastrophe and other risks	
<p>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.</p>	<ul style="list-style-type: none"> • Fire risk management practices are deployed at all operations to prevent fires and ensure quick reaction in event of a fire. • The Group has also developed fire risk management standards against which operations are audited. • The Group has a comprehensive insurance programme which covers catastrophic loss. • The Information, Communication and Technology (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.