

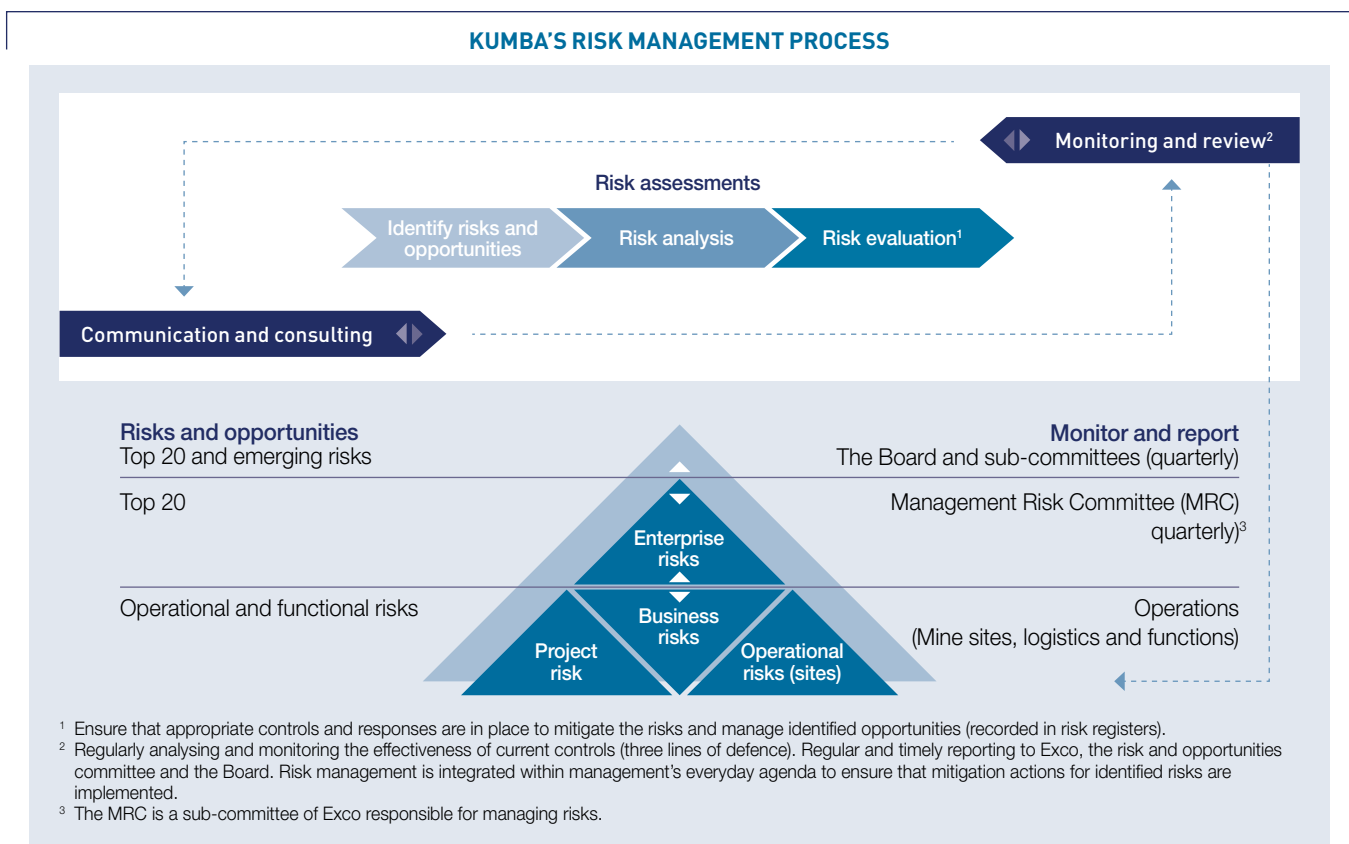


# MATERIAL RISKS AND OPPORTUNITIES

**THE MINING INDUSTRY FACES NUMEROUS RISKS, MANY OF WHICH ARE VOLATILE AND UNCERTAIN, REQUIRING AGILE DECISION-MAKING AND EFFECTIVE RISK MANAGEMENT STRATEGIES THAT MITIGATE EXPOSURE AND HARNESS AVAILABLE OPPORTUNITIES.**

Kumba's Board sub-committees oversee the integrated risk management process and receives regular feedback from management on all risk-related activities. The Board sub-committees continually assess all risk governance structures and lines of defence to ensure that roles, responsibilities and accountabilities for identifying, managing, mitigating, reporting and escalating risks and opportunities within the Company are defined.

**THE BOARD SUB-COMMITTEES AND KUMBA'S MANAGEMENT TEAM PROMOTE A CULTURE OF RISK GOVERNANCE AND AWARENESS THROUGHOUT THE ORGANISATION**



## RISK APPETITE AND TOLERANCE

Kumba defines risk appetite as the nature and extent of the risk the Company is willing to accept in the pursuit of its objectives; risk tolerance refers to the organisation's strategic capacity to accept or absorb risk.

Risk appetite and tolerance are high on the Board's agenda and are a core consideration of our enterprise risk management approach. Risk appetite and tolerance consider the relationship between the potential consequences of key risks and the actual condition of the controls or management actions that mitigate those consequences. In the context of the accelerated implementation of the Tswelopele programme and a continuously changing operating environment, we regularly review our risk appetite and tolerance to ensure that our decision-making is aligned with the Company's strategy. The Board reviews and approves the risk tolerance and appetite on a quarterly basis.

To measure risk appetite, we have developed a matrix that combines an assessment of the consequences of our risks with the status of management actions and/or internal controls that prevent or mitigate that risk. Risks that have significant consequences will be within appetite if controls or management actions are in place. Risks can only exceed appetite if a significant consequence is not sufficiently controlled or management actions have not yet been implemented to an extent that the risks can be described as being effectively managed.

## PURSUING OPPORTUNITIES

Our risk management process includes specific provision for identifying and realising business opportunities. We define an opportunity as a set of exploitable circumstances with uncertain outcome, requiring commitment of resources and that may involve exposure to risk.

In alignment with our Tswelopele programme aimed at securing Kumba's "Transformation to full potential", we have committed resources to realising the following opportunities:

<p><b>Opportunities:</b> Significantly improving margins (by US\$10/tonne) through various initiatives that will optimise our production portfolio to deliver the price premium associated with higher quality ore</p> <p><b>Capitals enhanced:</b> </p>	<p><b>Opportunities:</b> Enhancing the performance of our current assets by improving overall equipment efficiency, reducing external spend and optimising the Anglo Operating Model</p> <p><b>Capitals enhanced:</b>  </p>	<p><b>Opportunities:</b> Leveraging our endowment and growing our core business to further extend our life-of-mine to 2040</p> <p><b>Capitals enhanced:</b>  </p>	<p><b>Opportunities:</b> Partnering with national/international donor organisations and implementing agencies to improve impact on our surrounding communities</p> <p><b>Capitals enhanced:</b> </p>	<p><b>Opportunities:</b> Unlock and identify Horizon 3 opportunities</p> <p><b>Capitals enhanced:</b> </p>
--	---	---	--	--

## CATASTROPHIC EVENTS/RISKS

These are high severity, low likelihood events that could result in multiple fatalities or injuries, an unplanned fundamental change to strategy or the way we operate and have significant financial consequences. We do not consider likelihood when evaluating these risks as the potential impacts classify these risks as a priority:

CATASTROPHIC EVENTS/RISKS	MITIGATION
<p><b>Failure of infrastructure or key equipment on the logistics channel:</b> A major failure of infrastructure or key equipment on the logistics channel could result in prolonged rail or port disruption and unavailability</p>	<ul style="list-style-type: none"> <li>• Business continuity plan</li> <li>• Contingent business interruption insurance cover</li> <li>• Oversight on infrastructure or key equipment maintenance programmes for the logistics channel</li> </ul>
<p><b>Slope failure or dump failure:</b> A sudden and unexpected failure of a slope could lead to loss of life, injuries, environmental damage, reputational damage, financial costs and loss of production</p>	<ul style="list-style-type: none"> <li>• Geotechnical design</li> <li>• Slope stability monitoring</li> <li>• Geotechnical inspections</li> <li>• Emergency response plans and emergency preparedness plans</li> </ul>
<p><b>Tailings storage facility failure:</b> A release of waste material leading to loss of life, injuries, environmental damage, reputational damage, financial costs and production impacts with potential loss of licence to operate</p>	<ul style="list-style-type: none"> <li>• Inspections and regular audits by Manager technical services and the Operational Risk Assurance process</li> <li>• Automated warning system</li> <li>• Emergency response plans and emergency preparedness plans</li> </ul>
<p><b>Fire and/or explosion:</b> Fire and explosion risks are present at all mining operations and processing facilities</p>	<ul style="list-style-type: none"> <li>• Event risk reviews identify key fire and explosion risks and provide mitigation recommendations</li> <li>• Emergency response plans and emergency preparedness plans</li> </ul>



# MATERIAL RISKS AND OPPORTUNITIES CONTINUED

## EMERGING RISKS

Emerging risks are risks that should be monitored as they may become significant risks in due course. Following are some of the emerging risks that Kumba has identified:

<p><b>WIND DOWN OF ARCELORMITTAL SA SALDANHA STEEL</b></p>	<p><b>TIMELY DELIVERY OF STRATEGIC PROJECTS</b></p>	<p><b>BUSINESS IMPACT OF NOVEL CORONAVIRUS OUTBREAK</b></p>
<p>ArcelorMittal SA's decision to wind down its steel operations at Saldanha, and to review their iron ore off-take footprint in South Africa, will impact Kumba's domestic sales and stock levels. We continue to assess the effect, including the social impact on the Saldanha community.</p>	<p>In response to the rapidly changing mining and economic environment, we have embarked on various strategic projects to sustain and expand the business. Any delays or cost escalation in delivering these projects will impact our business case.</p>	<p>China is the largest customer base for Kumba, there is a potential impact should shipping and sales activities be suspended in China. We are closely monitoring any new developments concerning the coronavirus outbreak and where business could be impacted, managing the potential impact. Due to the considerable uncertainty around the impact of the virus, it is important that all impact and trigger points be considered and that we are ready to react quickly.</p>
<p><b>CONTINUED BUSINESS RESILIENCE</b></p>	<p><b>IMPACT OF PRICE VOLATILITY ON PROJECTS</b></p>	<p><b>NEW LARGE-SCALE GLOBAL IRON ORE DEPOSITS</b></p>
<p>The non-controllable elements (price, currency, geological and cost inflation and freight cost) of our business have the potential to significantly impact our earnings. We therefore remain focused on delivering our Tswelopele strategy of operating assets at full potential and achieving a 20-year life of asset by 2022 to mitigate the risks we face in order to deliver sustainable value to our stakeholders.</p>	<p>The volatility of long term iron prices as well as the fluctuating Rand/US\$ exchange rate, impacts the feasibility of certain capex projects, which could impact the growth of the business. All key capex projects are being evaluated and assessed to determine how best to mitigate or defer these projects.</p>	<p>New large-scale global high-grade iron ore deposits totalling more than two billion tonnes are being developed, the largest integrated mining and infrastructure development currently planned. This will impact the market dynamics when these projects come online in ~ 2030. We are currently assessing the implications on our business.</p>

## OUR TOP 10 RESIDUAL RISKS






The following heat map shows the residual rating for the top 10 material risks facing Kumba in 2019. A residual risk refers to the remaining risk exposure after all identified mitigation measures have been applied. The impact of external factors beyond management's control are key contributors to the current high residual risk ratings.

RESIDUAL RISK RATINGS		Consequence type				
Likelihood	Insignificant	Minor	Moderate	High	Major	
Almost certain			8 9	4 5	1 2 3	
Likely				6 7		
Possible				10		
Unlikely						
Rare						





RISK					
1	Commodity markets and exchange rate fluctuations	↑	6	Socio-economic challenges	↓
2	Safety and health	↑	7	Cyber risk	↓
3	Third-party infrastructure (IOEC operating office efficiency)	↓	8	Current South African governance and political challenges	↓
4	Operational performance (current year)	New	9	Legislation and regulatory compliance	↓
5	Managing change (transformation of the business)	↑	10	Resource depletion and securing growth	→

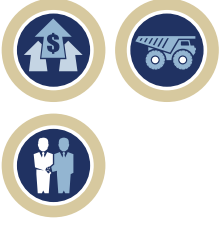


The following table presents the top 10 risks that we have identified as having a potential impact on our ability to mine safely and achieve our strategic imperatives. In prioritising these risks, we have considered both internal and external risks; we have designed and implemented appropriate mitigation strategies depending on the severity of impact and likelihood of occurrence of each risk.

1 COMMODITY MARKETS AND EXCHANGE RATE FLUCTUATIONS			INCREASE IN RISK (2018: 2)
ROOT CAUSE	IMPACT ON VALUE	MITIGATING ACTIONS	OUTLOOK
<p>Demand for Kumba's products is strongly influenced by world economic growth, particularly in Europe and Asia (notably China). The anticipated ramp-up in low-cost iron ore supply from the majors, and the shift in the Chinese economy from infrastructure-led to consumer-led growth, is expected to maintain downward pressure on current price levels. Increased environmental restrictions in China, particularly in the context of worsening air quality, continue to curtail capacity of sinter plants, shifting the demand toward direct charge inputs products such as pellets and lump ore, which results in favourable lump premiums</p> <p>As Kumba's iron ore export prices are determined in US Dollar, we negotiate iron ore prices in this currency with customers. By contrast almost all of our costs are incurred in Rand</p>	<ul style="list-style-type: none"> <li>As a price taker, changes in iron ore prices significantly impact Kumba's revenues, profitability and cash flow</li> <li>Revenue is in US Dollar. While some capital and other expenditures are incurred in US Dollar, the majority of our costs are denominated in Rand</li> <li>A fluctuating currency can have both positive and negative impacts on our revenue and cash position</li> </ul> <p><b>Capitals at risk</b></p> 	<ul style="list-style-type: none"> <li>Key iron ore market indicators and trends are constantly monitored, providing real time and robust market insights to support agile decision-making and action from production to market</li> <li>We employ price-risk management mechanisms to mitigate exposure and impact of price volatility</li> <li>We are maximising the Fe units of product sold to customers to take advantage of the higher index prices for high-grade products</li> <li>Our continuous focus on cost stewardship and production efficiency improvements help to protect margins and improve cash flow</li> <li>Our policy is not to hedge currency risk. A natural hedge is achieved through our foreign sales that are denominated in US Dollar</li> <li>Regarding capital expenditure exposure, our currency risk is managed by ensuring that the foreign exchange movements do not materially increase the budgeted foreign exchange capital cost</li> </ul>	<p>Market fundamentals for iron ore remain uncertain. Although current iron ore prices remain within a reasonable range, the shift in Chinese market drivers and additional supply from low-cost producers creates further uncertainty on the longer-term sustainability of current prices</p> <p>The Rand/US\$ exchange rate is anticipated to remain volatile due to its sensitivity to global markets and continuing political and macro-economic challenges in South Africa</p> <div style="background-color: #2c4e64; color: white; padding: 5px; text-align: center;"><b>STRATEGIC FOCUS AREAS</b></div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="text-align: center;">  <p>Compete through premium products</p> </div> <div style="text-align: center;">  <p>Operate mines at lower unit cost</p> </div> <div style="text-align: center;">  <p>Unlock full infrastructure potential</p> </div> </div> <div style="background-color: #2c4e64; color: white; padding: 5px; text-align: center; margin-top: 10px;"><b>KEY ENABLERS</b></div> <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div style="text-align: center;">  <p>Reinforce product quality and consistency</p> </div> </div>



# MATERIAL RISKS AND OPPORTUNITIES CONTINUED

2 SAFETY AND HEALTH			INCREASE IN RISK (2018: 3)
ROOT CAUSE	IMPACT ON VALUE	MITIGATING ACTIONS	OUTLOOK
<p>There are inherent safety risks associated with mining activities across the value chain. A continuously changing operating environment and conditions can heighten these risks</p> <p>Key priority unwanted events (PUEs) with the potential to cause harm to employees and contractors include: transportation risk; release of uncontrollable energy (electricity and other forms of energy); moving machinery interacting with people; working at heights; and uncontrolled ignition of combustible material such as explosives</p>	<ul style="list-style-type: none"> <li>Apart from physical harm to employees and contractors, failure to maintain high safety levels may impact negatively on employee morale, the achievement of production targets and our licence to operate</li> </ul> <p><b>Capitals at risk</b></p> 	<p>Various initiatives have been implemented as part of our commitment to zero harm:</p> <ul style="list-style-type: none"> <li>Sacred covenant code with employees and families to do our utmost to minimise harm</li> <li>Implement safety improvement plans and elimination of fatalities framework</li> <li>Risk and change management systems in place</li> <li>Focus on priority unwanted events and critical controls</li> <li>Preventing repeat incidents through effective learning from incidents</li> <li>Driving disciplined and consistent execution of the basics and compliance with safety standards</li> <li>Scheduled visible felt leadership (VFL) interventions with employees</li> </ul>	<p>We will maintain our strong focus on reinforcing safety practices that eliminate harm and fatalities, and harness a culture of heartfelt leadership to influence and entrench the right safety culture</p> <p><b>STRATEGIC AMBITION</b></p>  <p>Eliminate fatal incidents through a culture of zero harm</p> <p><b>KEY ENABLERS</b></p>  <p>Provide leadership through responsible citizenship</p>  <p>Leadership and culture</p>

3 THIRD-PARTY INFRASTRUCTURE (IOEC OPERATING EFFICIENCY)			DECREASE IN RISK (2018: 1)
ROOT CAUSE	IMPACT ON VALUE	MITIGATING ACTIONS	OUTLOOK
<p>We export our ore to customers through the Sishen/Kolomela-Saldanha iron ore export channel (IOEC) that is owned and operated by Transnet. We require a stable rail and port infrastructure network that operates reliably at design capacities</p> <p>Any incidents on the IOEC (such as derailments) affect business continuity</p> <p>Ageing infrastructure requires significant maintenance to improve reliability and efficiency and maintain capacity, particularly as we extend our life of mine</p> <p>There is pressure from new market entrants, including manganese producers, to gain access to the IOEC, as well as requests from Transnet to allow BEE players access to the IOEC</p>	<ul style="list-style-type: none"> <li>An adverse impact on logistical capabilities and failure to obtain supporting facilities may pose a business continuity risk</li> <li>Unavailability of key infrastructure affects delivery of products to customers and impacts revenue</li> <li>IOEC challenges can also increase freight costs</li> </ul> <p><b>Capitals at risk</b></p> 	<ul style="list-style-type: none"> <li>Ongoing engagement with Transnet to optimise the channel throughput. Joint Executive Steering Committee established</li> <li>Agreement with Transnet on access to alternative facilities, such as the multi-purpose terminal (MPT) and back-of-port solution creates access to capacity when required</li> <li>Improved operational flexibility at our operations to maximise Fe units/quality of the ore to take advantage of higher prices for premium ore</li> <li>Improved on-mine operating parameters: optimised loading, reduced loading variability and improved turnaround times</li> <li>Proactively seek solutions to introduce BEE players on the IOEC to limit operational risk</li> </ul>	<p>Anticipate continued engagement with Transnet to explore opportunities to improve the stability of the network and to deliver enhanced efficiencies to achieve targeted throughput</p> <p><b>STRATEGIC FOCUS AREAS</b></p>  <p>Unlock full infrastructure potential</p> <p><b>KEY ENABLERS</b></p>  <p>Proactively engaging with key stakeholders</p>