AFRIMAT LIMITED	**POLICY: RISK MANAGEMENT AND RISK TOLERANCE**	www.afrimat.co.za F2016

Introduction

Afrimat Limited ("Afrimat") views the management of risk central to its operational strategy of delivering sustained growth to stakeholders.

While the Chief Executive Officer ("CEO") and Financial Director ("FD") are the key drivers of risk management, the different management teams in the group, Executive Committee, Management Committee, Audit & Risk Committee and Board, as well as all employees, further assist with identifying, evaluating and managing key risk areas.

The risk management policy must be widely distributed throughout the group and be integrated into the daily activities of the group.

Risk training and awareness

The Board and all employees should be exposed to risk induction and ongoing risk training programmes.

Top-down communication to employees and external stakeholders relating to risk minimisation and the zero tolerance approach relating to non-adherence should be ongoing.

Risk management processes

Risk management processes are as follows:

1. Risk register >

   Risk identification is a continuous process applied frequently to update and accommodate changes in a volatile environment.

   A formal risk register is maintained and should be updated six monthly to inform the directors and senior management. The register incorporates the probability of occurrence and potential impact of a specific risk. The register must be reviewed by the Management Committee, the Audit & Risk Committee and Board. Unpredictable risks must also be included. The risks on the risk register should be prioritised and ranked and responses documented.

   Risks should be classified as follows:

   - Business strategy;
   - Economic;
   - Legislative, political and corporate governance;

- Social;
- Operational;
- Sustainability (incl. safety/health, environment, responsible corporate citizen, ethics/values, transformation, compliance);
- Financial;
- Human Resources;
- Market and competition behaviour;
- IT risks.

2. Key control drivers >

   Key control drivers originate from the following:

   - Policies and procedures;
   - Internal control system;
   - Management control system;
   - Authorisation levels;
   - Risk analysis when major decisions are made;
   - Financial risk targets (capital, liquidity, credit, market);
   - Financial and management reporting.

   Uncontrollable risks must be insured where applicable and affordable.

3. Adherence to key controls >

   To ensure that key controls are adhered to the following compliance activities are in place:

   - Management supervision and reviews;
   - "Hazard identification risk assessment" in respect of safety and health;
   - Internal audit;
   - Self audits;
   - Loss control officer (operational auditor) inspections;
   - Government departments inspectors;

- Industry body audits;
- Audits by external consultants and specialists;
- Compulsory reporting and returns to government departments;
- Whistle blowing hotline.

4. Risk incidents reporting >

   Risk incidents must be reported as follows:

   - All instances of theft, fraud, injuries and damage to the group's assets must be recorded in a register and reported to the corporate office each month. Each instance of fraud must be investigated to determine if internal and management controls functioned properly i.e. fraud was timeously detected. Each injury must be investigated and corrective actions implemented;
   - All cases of theft and fraud committed by employees and external persons must be reported to the SAPS.

5. Risk management monitoring >

   The Board should ensure that risk management is effective and that risk monitoring occurs continually.

<u>Risk tolerance and appetite</u>

Management evaluates and set levels of risk tolerance and risk appetite once a year.

The levels of risk tolerance and risk appetite have been approved by the board as follows for the financial years indicated:

1. F2012 - **Risk tolerance** will be led by the responsibility to deliver sustainable growth that is expected of a listed entity

   F2013 - Same

   F2014 - Same

   F2015 - Same

   F2016 - Same

2. F2012 - **Risk appetite** should remain conservative in view of the general poor economic situation, and potential government funding constraints

   F2013 - Same

   F2014 - Same

F2015 - Same

F2016 - Same

3. F2012 **Debt : equity ratio** to be below 25%

   F2013 - Same

   F2014 - Same

   F2015 - Same

   F2015 - Same

4. F2012 - **DIFR** to decline from previous levels towards target of 0

   F2013 - Same (aiming for 2.5 this year)

   F2014 - Same (aiming for 2.0 this year)

   F2015 - Same (aiming for 1.5 this year)

   F2016 – Same (aiming for 1.0 this year)

5. F2012 - **New investments** must be conservatively evaluated and should potentially deliver IRR in excess of 25% (calculated on a discounted cash flow basis over 10 years)

   F2013 - Same

   F2014 - High volatility investments 25%; low volatility 15-18%

   F2015 - Same

   F2016 - SameF2012 - **Exposure to new ventures** in core business and synergistic industries will be less than 15% of market capitalisation until such time that the delivery of the venture is proved. The imminent expansion into synergistic industrial minerals industry would be an acceptable new risk

   F2013 - Exposure to new ventures (greenfields and acquisitions) in core business and synergistic industries will be less than 25% of market capitalisation and may only be increased when the profit delivery of the new ventures are proven. The expansion into the synergistic industrial minerals industry would be an acceptable risk

   F2014 - Same

   F2015 - Same

   F2016 - Same

6. F2012 - When the **“cost of controls”** are excessive if compared against the profit generated by an activity then the controls should be reduced accordingly

   F2013 - Same

   F2014 - Same

   F2015 – Same

   F2016 - Same

General

This policy must be reviewed annually by management and changes approved by the Board.

END.