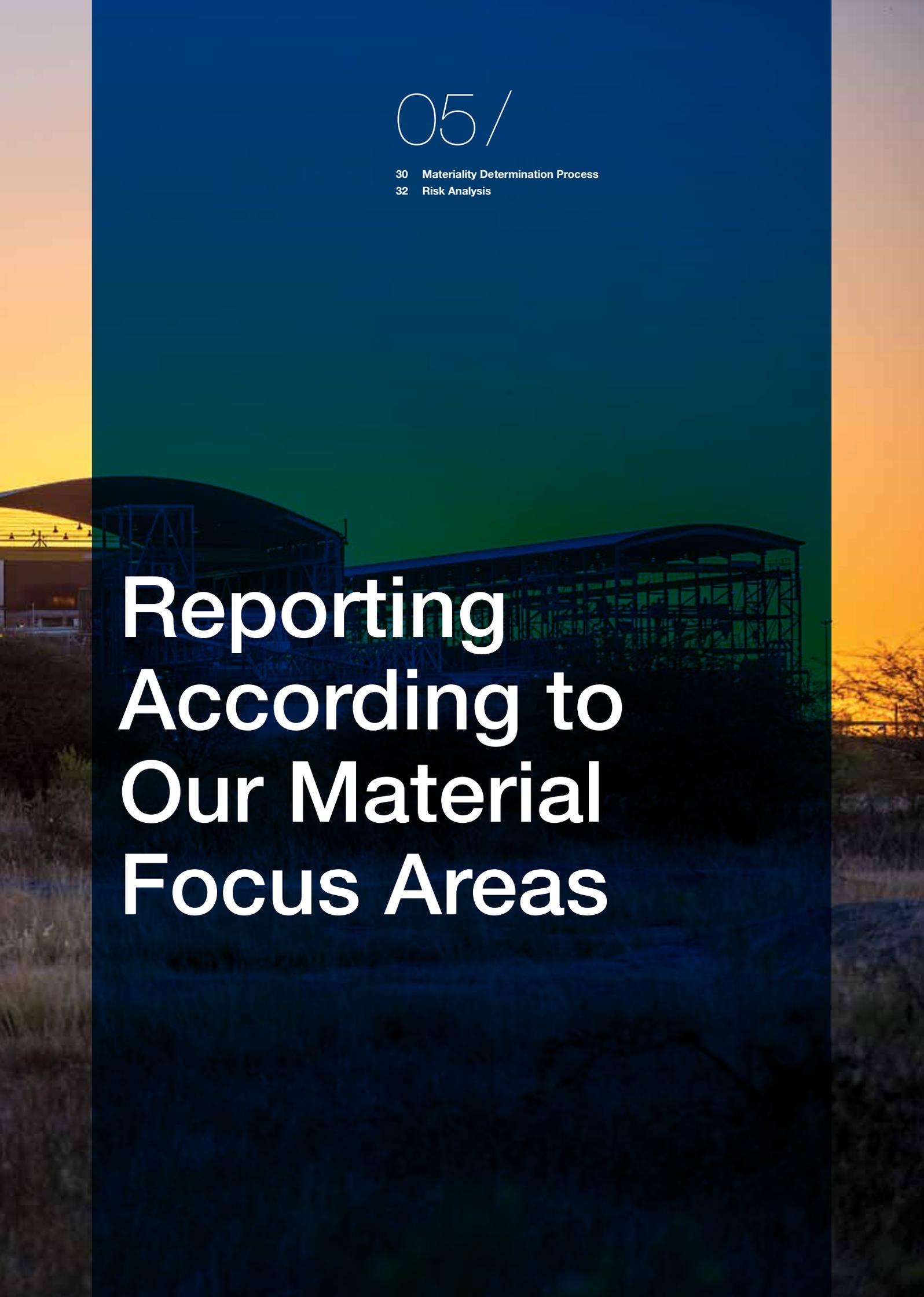


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Reporting According to Our Material Focus Areas

The background of the page is a photograph of a large industrial building under construction. The building's steel framework is visible, and it is surrounded by scaffolding. The scene is captured at sunset, with a warm orange and yellow glow on the left and right sides, transitioning into a dark blue and green gradient across the top and center. The overall mood is professional and modern.

Materiality Determination Process

This Sustainable Development Report supplements Lonmin’s Annual Report and Accounts 2017, providing more detail regarding the Company’s most material sustainability matters. This section outlines how we determine material sustainability matters.

We define material matters as those that substantively affect the Company’s ability to create value in the short, medium and long term, and considerably influence key stakeholder decisions.

The process used to determine Lonmin’s most material matters aligns with the approach to materiality recommended in the GRI’s¹ G4 Sustainability Reporting Guidelines. It considers the guidance provided in the International Integrated Reporting Council’s (IIRC) Integrated Reporting <IR> Framework and the corporate reporting dialogue.

Six-step process

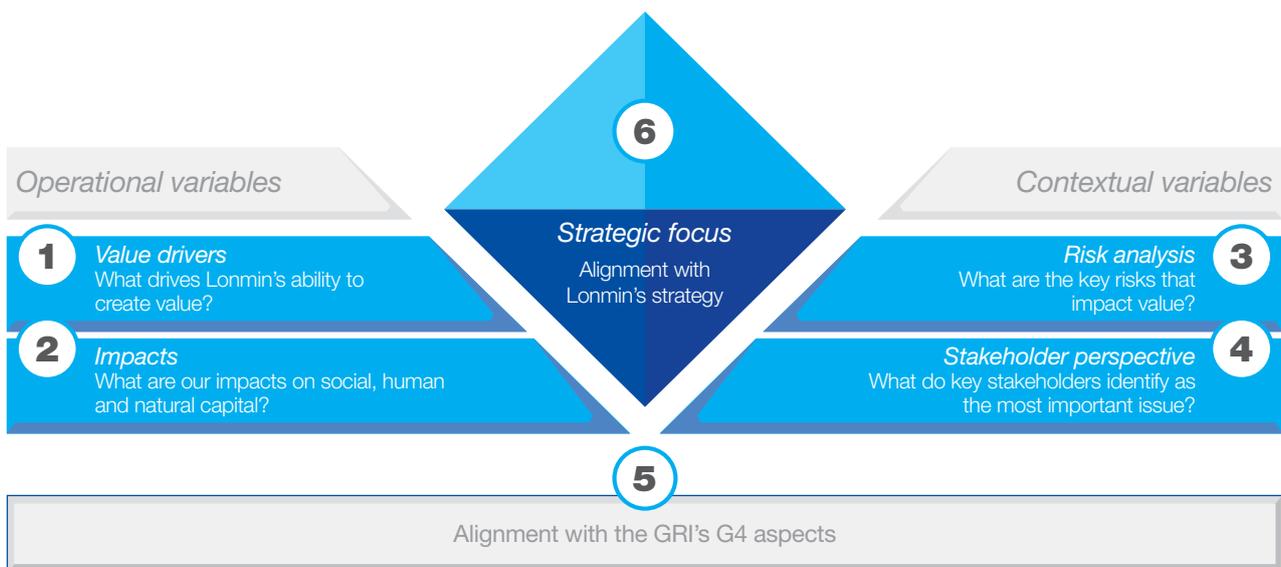
The process of determining material matters considers operational and contextual variables, drawing from an understanding of our value drivers, and the extent and nature of the Company’s impacts on social, human and natural capital.

A materiality workshop was held in June 2017 that included senior executives and operational specialists. The process followed six steps:

1. We conducted a review of Lonmin’s business model to identify the material value drivers in the business, including Lonmin’s profit formula, value chain activities, and critical resources and relationships. This was followed by a

consideration of the top issues in the external business environment that could most substantially affect the Company’s ability to create value.

2. We identified the most significant impacts (positive and negative) of Lonmin’s activities on social and relationship, human and natural capital, as well as an assessment of the areas where the Company can most effectively use its influence to effect positive change.
3. We assessed material matters against the key risks identified by the enterprise risk management process.
4. We discussed the topics that could most substantively influence the assessments and decisions of key stakeholders. This was informed by information gathered through desktop reviews, analysis of media coverage, online sources, a review of key matters raised by analysts and environmental non-governmental organisations (NGOs), internal conversations and consultation sessions. Further information on how we engaged with our key stakeholder groups and their main areas of concern is detailed in the online supplementary report at <https://sd-report.lonmin.com/2017/download-manager/>.
5. We reviewed the material topics identified against those of the GRI Sustainability Reporting Standards.
6. We assessed the implications of each material sustainability focus area against Lonmin’s strategy.



¹ The GRI (formerly the Global Reporting Initiative) is a global reporting guideline that provides a framework for sustainable development reporting (www.globalreporting.org). Lonmin’s GRI index is available online at <https://sd-report.lonmin.com/2017/download-manager/>.

The workshop led to five of the existing material focus areas being retained, with revisions made to certain material matters to better describe their content, as shown in the graphic below. These are summarised in the table on page 7 and discussed in more detail in other chapters of this report. Last year we discussed ‘a challenging operating environment’ as a material

focus area, which information is included in the current report as contextual information in the section on page 8 to better align with the recommendations of the International IIRC’s <IR> Framework.

<i>Material focus area 2016</i>		<i>Material focus area 2017</i>
A challenging operating environment	Moved 	Discussed in our sustainability context on page 8
Employee relationships	Unchanged 	Employee relationships
Safety and health	Unchanged 	Safety and health
Social licence to operate	Renamed 	Community relationships and investment
Environment	Renamed 	Managing environmental impacts and opportunities
Relationships with government	Renamed 	Constructive engagement: government, regulatory and other stakeholders

Risk Analysis

Approach

Lonmin's integrated approach to risk management identifies, evaluates, manages and monitors the risks facing the business. The Board determines the Company's risk appetite, which is the aggregate amount of risk we actively seek or accept in pursuit of our long-term objectives. The Board decides the Company's business strategy and determines the risk tolerances, which is the maximum allowable variation of achieving specific performance measures linked to the business plan's objectives (key performance indicators (KPIs)).

The Audit and Risk Committee regularly reviews the effectiveness of the risk management process and the methodology used to evaluate and quantify the risks. 'Top-down' and 'bottom-up' risk reviews are carried out in each area of our business, involving the Executive Committee (Exco), and operational and middle managers respectively. All senior managers are responsible for managing and monitoring risks in their area of responsibility and recording these in the risk register.

Operational and functional risk registers feed into the principal risk register, which is updated on a three-month cycle and reviewed by Exco and the Board. The risk management process includes the organisational context, which requires an analysis and understanding of macro-economic factors, stakeholder analysis and organisational objectives. This process aims to ensure regulatory compliance and that all risks that could cause operational disruption are appropriately managed. We benchmark our risk profile against our industry peers twice a year.

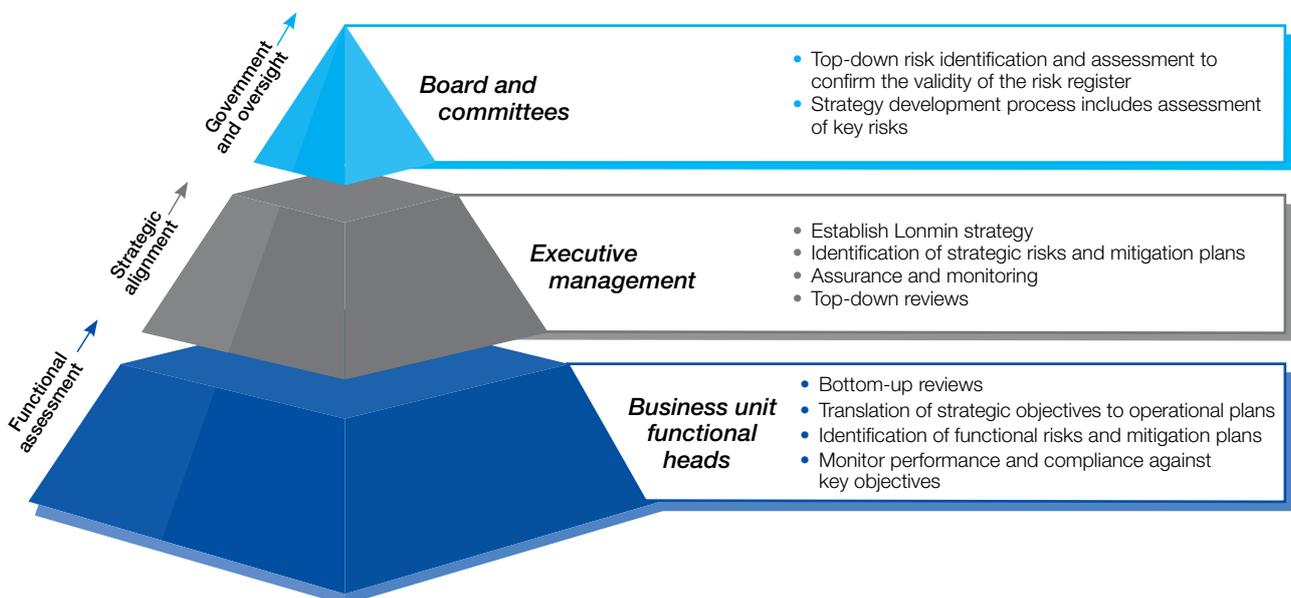
Risks are rated on a matrix scoring system based on probability of occurrence and potential consequences. As part of this, the root causes of each risk are identified; effectiveness of the existing controls is analysed; and the required mitigation measures are identified.

Risks are grouped with key business KPIs to enhance alignment with organisational strategy. The top risks and the associated mitigating controls are reviewed at least quarterly by

the Exco and the Board, and a summary dashboard providing a visual breakdown of key risks and mitigating strategies is reviewed at every Board meeting. We ensure that our regular risk reviews inform the internal audit process and the design of internal controls.

Risks related to sustainability, such as safety, labour and community relations, social development, transformation and environmental impacts, contribute a significant portion of Lonmin's risk profile. Each business area is responsible for managing safety and environmental impact mitigation and for monitoring the relevant action plans in place. Each of the business areas is supported by either a risk officer or an operational risk champion who coordinates all risk management activity in that business area and ensures that actions are implemented appropriately. Reviews of these risks and their associated management plans are conducted by the Safety, Health and Environment (SHE) and the Social, Ethics and Transformation (SET) Board committees, and the results are presented to the Board. This ensures that focus on these areas is maintained and that accountability is embedded at operational management level.

During 2017 our focus was on further developing the maturity and integrity of the risk management process through introducing the combined assurance framework, formalising regulatory compliance, rolling out the risk appetite and tolerance process, and applying various operational risk enhancements. A more rigid and proactive approach was introduced through a scenario planning analysis to improve the understanding of the impacts of the internal and external environment under which the Lonmin strategy will be executed. The risk management diagram below depicts how the risk management process applies across the Company. More detail on how we manage and mitigate risk is available on pages 22 to 29 of the Annual Report and Accounts 2017. The key risks relevant to each of the material focus areas, including a description of their impact, related opportunities and mitigation, are outlined on pages 34 to 38.



Principal risks

Lonmin's principal risks are ranked considering the magnitude of potential impact, probability, and taking into account the effectiveness of existing controls. The risks that relate most closely to sustainable development are discussed in this report (refer to the page numbers below) and the rest are addressed within the Annual Reports and Accounts 2017.

1. Failure to complete transaction with Sibanye-Stillwater (page 22 of Annual Report and Accounts)
2. Liquidity (page 11)
3. Price and market volatility (page 23 of Annual Report and Accounts)
4. Safety performance (page 35)
5. Operational execution (page 24 of Annual Report and Accounts)
6. Community relations (page 36)
7. Changes to the political, legal, social and economic environment, including resource nationalisation (page 37)
8. Employee and union relations (page 34)
9. Utilities (page 38)
10. Lack of geographical and product diversification
11. Loss of critical skills (page 34)

This list does not describe the full range of risks the Company faces. As the macro-economic environment changes and country and industry circumstances evolve, new risks may arise, existing risks may recede, or the rankings of these risks may change.



Employee skills development



Reverse Osmosis Plant at the PMR

Risk Analysis (continued)

Related sustainability risks

Employee relationships

Employee and union relations – Optimal relations can significantly enhance operational execution and improve employer-employee relationships, while a breakdown in relations could result in production stoppages as well as a breakdown of trust.

Description

The industrial relations environment has stabilised over the last 12 months as evidenced by the improved dialogue between unions and Company management. While the environment has remained stable, the potential for volatility remains, which could result in disruptions to operations and have a material adverse effect on the Company's financial position. A major concern is internal differences or rivalry within the Association of Mineworkers Construction Union (AMCU) resulting in infighting and lack of cohesiveness in leading their members and engagement with Lonmin management.

Impact

Various internal as well as external factors could influence the employee relations space and could lead to a breakdown of employer-union relations. A key contributor to this is current internal AMCU challenges that have a risk of being violent and could result in loss of life and potentially impact on production.

Opportunities and mitigation

- Structured engagement forums with unions across all levels e.g. Senior leadership and shaft forums
- Legally required Future Forum established
- Pertinent issues being discussed with organised labour at present are poor operational performance, future of the mine, absenteeism and sick leave abuse, over-complement labour and dealing with this, rental payments for infill apartments as well as rationalisation of union branch structures ahead of union leadership elections
- Engagement with AMCU at all levels, and with relevant authorities to enhance safety and security in the area
- As part of improving employer relations, the established relationship building programme and charter to govern relations between unions and the Company are also under review

Further reading

- Employee overview 42
- Valuing our employees 44
- Grievance procedures 46
- Skills development 46
- Employment equity and diversity 47
- Accommodation and living conditions 48
- Union relations 52
- Key stakeholders 96

Loss of critical skills

Description

The loss of critical skills remains a challenge for the Company. The uncertainties related to the Company's financing and sustainability remain, and these are amplified by the continued uncertainty in the mining sector. Under these conditions, the loss of key skills is a significant risk to the organisation.

Impact

The loss of critical skills in key positions could play a significant role in our ability to deliver against production and financial targets. In order to retain our skilled labour, we continuously review our remuneration packages and the incentive and retention schemes. This allows our pay structures to remain in line with the packages offered by our peers. An inherent risk of attracting and retaining employees of the required calibre is that it can result in increased costs.

Opportunities and mitigation

- Individual development plans, succession planning and retention strategies for scarce skills have been established as part of ensuring the development and retention of critical skills
- Ongoing monitoring of remuneration practices which matches Lonmin peers
- Retention programmes for key skills
- Categorisation of skills, establishment of promotional pools and career paths reviews to remain relevant to the organisation have been established
- Graduate development, mentorship programmes and internship programmes have also been established to ensure development of existing and future human resources capacity

Further reading

- Employee overview 42
- Skills development 46
- Employment equity and diversity 47

Safety and health

Safety performance – A poor safety performance can result in loss of life and serious injury to our employees. It can also negatively impact production, affect costs, cause reputational damage and result in unfavourable regulatory intervention

Description

Safety incidents can cause loss of life and injuries to employees. Work stoppages and Section 54 stoppages will impact the Company’s ability to achieve production and financial targets.

Impact

A failure in safety processes could result in injury or loss of life, which would have tragic implications for employees, their families and communities. It would also severely disrupt operations and could result in safety stoppages, which have a direct impact on our people, cost and reputation. The failures in safety procedures may be caused by employees or poor management practices. Work stoppages and Section 54 stoppages have an impact on the working rhythm, cost, production at the operations and could result in suspension of Lonmin’s operating licence.

Opportunities and mitigation

- Focus by the operations on leading indicators that trigger risk awareness and proactive action
- Lonmin life rule monitoring and safety KPIs established per mine manager
- Management interaction with the workforce through Visible Felt Leadership
- Operational Steering Committee (OPSCO) weekly engagement of overall organisation-wide safety performance
- Enforcement of contractor safety management protocols
- Behaviour-based intervention focusing on employee behaviour
- Implementation of Incident Cause Analysis Method findings post investigation
- Ongoing cross-site and compliance audits that measure the safety maturity of each operational business unit and learnings are shared across operations
- General manager safety-led improvement plans implemented with an enhanced focus on accident analysis and proactive preventive measures

Further reading

- Safety at Lonmin 56

Noise and noise-induced hearing loss¹ (NIHL)

Description

Noise is a significant risk in the mining industry and is a material risk to Lonmin employees and contractors.

Impact

Failure to implement effective controls in areas of high noise can lead to permanent hearing loss and diminished quality of life for employees and contractors. Loss of hearing can arise from a range of factors in addition to occupational noise exposure, and it is important that our occupational hygiene programme is effective at discerning the cause of hearing loss. As a focus area for the mining industry and the DMR, failure to manage NIHL effectively could lead to reputational damage and loss of our mining licence.

Opportunities and mitigation

A hearing conservation programme is in place to address noise levels in work areas, provide training, and increase awareness about NIHL and the importance of wearing hearing protection equipment. New equipment or machinery bought limits noise intensity to below 110dB(A). Personal protective equipment (PPE), specifically hearing protection devices, are investigated to ensure that Lonmin uses only the most effective products to reduce exposure to noise levels of above 85dB(A).

Further reading

- Health and wellbeing 58

Disease profile with high incidence of tuberculosis and HIV/Aids¹

Description

Tuberculosis (TB) and HIV/Aids are debilitating diseases and are key focus areas for Lonmin, the DMR and Department of Health. At Lonmin, HIV/Aids-related diseases remain the biggest cause of in-service deaths. A further concern relates to employees defaulting on treatment and the high incidence of TB.

Impact

The treatments for TB and HIV/Aids are effective, particularly with early initiation of treatment. Failure to manage patients with these diseases decreases their survival rates and quality of life. It is important that Lonmin contributes to addressing these diseases in support of the DMR and Department of Health. Ill-health impacts workforce productivity and absenteeism.

Opportunities and mitigation

Lonmin’s wellness programme aims to address the physical and emotional effects of TB and HIV/Aids. Employees and contractors have access to voluntary HIV/Aids counselling and testing (HCT), and regular initiatives aim to raise awareness about these diseases. We supply anti-retroviral treatment (ART) to HIV-positive employees and support volunteers active in surrounding communities who conduct home counselling and testing, and perform TB contact tracing.

Further reading

- Health and wellbeing 58

¹ These risks are not part of Lonmin’s strategic risks, but in the context of health, they are important to note.

Risk Analysis (continued)

Community relationships and investment

Community relations – A sound relationship with surrounding communities will enhance relations and organisational reputation, while a failure to do so could result in disruption of operations or community unrest

Description

There may be occasions where expectations by a host community cannot be met and may result in conflict and unrest. The relationship with host communities is particularly vulnerable due to differences in the leadership structures of the stakeholders with whom the mine engages. This results in different splinter groups engaging the mine with different and unrealistic expectations.

Impact

This might result in failure to deliver Social and Labour Plan (SLP) commitments, which impact the Company's licence to operate and may trigger protests or cause corporate reputational damage. Lonmin acknowledges the important role of communities as a critical stakeholder and has implemented various engagement platforms and development initiatives to ensure appropriate upliftment. Procurement and employment have become focus areas as communities view them as opportunities to improve their livelihood through improved income. Lonmin has identified this need, and has introduced procurement and employment opportunities for the communities.

Opportunities and mitigation

- Revised SLP implementation plans have been shared with the DMR. The regulator has been engaged regarding the backlog in the commitments that will not be delivered as per originally agreed time frames
- A structured process for employment opportunities was made available to surrounding communities
- Continuous engagement of municipal leadership and capacitation (support on technical matters related to SLP)
- Community ward councillors (Bapo and non-Bapo) engagements
- Community value proposition being rolled out to address infrastructure requirements and education requirements
- Implementation of revised project risk management process which incorporates stakeholder requirements
- Greater consultation with stakeholders which includes upliftment measures being initiated. This approach will increase community ownership of both the challenges facing communities and the solutions provided as part of the SLP implementation plan

Further reading

- Community relations and engagement 66
- Transformation through enterprise development and procurement 72
- Respecting human rights 110

Changes to the political, legal, social and economic environment, including resource nationalism

Description

The Company is subject to the risks associated with conducting business in South Africa including, but not limited to, changes to the country's laws and policies regarding taxation, royalties, divestment, repatriation of capital and resource nationalism. The latter is a broad term that describes the situation where a government attempts to assert increased authority, control and ownership over the natural resources located in its jurisdiction.

The Mineral and Petroleum Resources Development Act (MPRDA) Amendment Bill is currently anticipated to be published in the first half of 2018. Beneficiation is a major consideration as it is likely that the Minister of the DMR will be granted discretion to declare certain minerals as strategic, to determine the percentage of strategic minerals that are to be made available locally, determine the developmental price at which strategic minerals are to be sold, and determine the conditions applicable to export permits. In addition, the Davis Commission continues to look at the current tax regime with a view to determining whether additional taxes, including a carbon tax, should be imposed on mining companies. The mining industry is also awaiting clarity of the interpretation of the applicability of the once-empowered-always-empowered (OEAE) principle which was argued before the High Court in November 2017 and where judgment is awaited. Finally, a High Court review application will be heard in February 2018 to consider the contents and applicability of Charter III. Pressure remains on the DMR to demonstrate that it is taking action to monitor compliance with undertakings made in the SLPs submitted by mining companies. Lonmin received a Section 93 notice in respect of its SLP obligations and continues to negotiate with the DMR in an attempt to reach a constructive solution. In addition, the Department of Trade and Industry is attempting to legislate a policy of creating black industrialists.

Impact

The ongoing disputes in respect of the applicability of Mining Charter III and the pending introduction of an amended MPRDA have created policy uncertainty, leading to a significant decline in investor appetite for South African investment. The amended MPRDA may lead to additional taxes and sale of metals at discounted developmental prices. The obligation to sell locally could impact long-term supply agreements with our customers. The implications of a judgement in favour of the DMR in relation to Mining Charter III include the imposition of additional royalties based on revenue streams; increased equity empowerment, procurement and employment equity levels; the writing off of loans owed by black economic empowerment (BEE) investors in the event that they are not repaid via dividends received from the relevant mining company; 1% of turnover being payable to BEE shareholders; participation of BEE shareholders in the trading and marketing of the proportionate share of production they will be entitled to; and BEE-owned companies being granted a right to match any sale of mining assets.

Managing environmental impacts and opportunities

Changes to the political, legal, social and economic environment, including resource nationalism (continued)

Opportunities and mitigation

- The declaratory order application brought by the Chamber of Mines on behalf of the industry to determine the validity of the OEAE principle in respect of which judgement is awaited
- The review application being brought in February 2018 to determine the reasonableness, legality and applicability of Charter III
- Chamber communications strategy to make the public aware of the implications of Charter III
- Appropriate governance structures in the form of executive and Board committees have been established to ensure ongoing reporting of progress against agreed SLP targets.

Further reading

- Transformation through enterprise development and procurement 72
- Key stakeholders 96
- Primary regulations 103
- Respecting human rights 110

Increasing environmental regulatory requirements, legislation and amendments¹

Description

Increasing environmental legislation for mining and processing activities requires financial resources, and careful understanding and implementation of appropriate measures to ensure compliance.

Impact

Pending environmental regulations, such as the carbon tax, will have direct and indirect financial impacts on the Company. Even where other legislation may not have a direct financial impact, ensuring compliance with the increasing range of regulatory requirements, legislation and amendments is increasingly time consuming, complex and costly. Financial penalties and reputational risks are associated with non-compliances with legislative requirements.

Opportunities and mitigation

Proactive management of our environmental obligations builds our relationships with communities and regulators, and helps us to retain our legal and social licences to operate.

Our environmental requirements are implemented across the operations through the certified ISO 14001 Environmental Management System (EMS). Our overall environmental performance is regularly monitored and verified through a range of internal and external audits.

In 2017 Lonmin commissioned an external audit of the Company's environmental legal compliance to get an independent opinion on compliance.

Further reading

- Accountability and governance 76
- Environmental compliance 78
- Climate change 85
- Waste management 88

¹ This is not part of Lonmin's principal risks, but is important in the context of our environmental management.

Risk Analysis (continued)

Managing environmental impacts and opportunities (continued)

Utilities – Access to secure energy and water as well as the optimal use of the input resources are critical for mining operations

Description

The higher-than-inflation tariff-based increases in electricity and water are set to continue. Efforts are continuing to improve efficiency of the use of these utilities to ensure that costs are contained as best as possible year-on-year. A stable electricity environment, in terms of pricing, is critical in ensuring long-term sustainability. The deteriorating financial position of ESKOM and the potential cost impacts to industry in an attempt to try and clawback revenue lost, due to lower power sales and the increasing burden of expansion programme interest charges, remain a real concern and cost threat. Near-term uncertainty is set to continue with continued pressure for above-inflationary increases. Water utilisation has also been challenging, both from an infrastructure point of view as well as availability. Capacity deterioration within local municipalities is also adding to this challenge. The establishment of informal settlements resulted in communities requesting water and electricity supply as a basic need and keeps adding to the burden of local municipalities and industries for service delivery. Reduced dependency on Rand Water Board (RWB) supply to the Lonmin operations is set to be an ongoing strategic drive.

Impact

Supply constraints in respect of energy or water could impact our ability to operate effectively and meet our production targets. Furthermore, cost increases in respect of these utilities impact our margins. Water availability is becoming a critical component of any business to survive and still remains a basic human need.

The risk associated with water is higher than the risk associated with electrical supply. RWB supply is forecast to run dry in Gauteng during 2019. ESKOM is currently in an oversupply, and with the continued low to no economic growth, this is set to continue. The risk regarding electricity is the potential spiralling cost escalations to try and compensate for less power sales year-on-year. Changes in peak and non-peak power rates are also a real threat and peak power rates could be increased significantly going forward.

Opportunities and mitigation

Ongoing implementation of the electricity conservation programme as well as water optimisation through demand management are in place. An integrated water management plan for Lonmin has been developed with the goal to reduce RWB reliance as far as possible within the operations, and to maximise the recovery and re-use of all other sources of water. Longer-term plans to treat some streams of these alternative sources to potable level to make the business more independent of RWB. Lonmin is exploring further opportunities to supply communities out of such streams. As part of ensuring optimal electricity usage, Lonmin is a member of the ESKOM energy-intensive user groups (EIUG), as well as conducting monthly and daily electricity consumption and reporting.

Utilities – Access to secure energy and water as well as the optimal use of the input resources are critical for mining operations (continued)

Opportunities and mitigation (continued)

Additional initiatives to ensure optimal usage are the electricity conservation programme and loadshedding contractual agreements to manage supply-side constraints. As part of ensuring appropriate continuity during an outage, the Company has implemented risk-based scenario planning based on available ESKOM capacity. From a water optimisation perspective, the Company has implemented water conservation and demand management initiatives. The process as to how water is being monitored and managed is aligned with how power is being managed in the business. Substitution of RWB with other water sources will remain an ongoing focus, to reduce the reliance on this supply.

Further reading

- Water management 79
- Energy management 82



At our salvage yard our boilermakers assist in refurbishing equipment for reuse.