

In Kumba, risk management is a well-defined, logical and methodical process. Instilling a risk-conscious culture throughout our group is a continual focus as we strive to reach our goal of maximising opportunities and minimising exposures to risk.

## Risk management

### Risk philosophy

Kumba maintains an integrated, enterprise-wide, risk management programme ('IRM') and applies a logical, systematic and repetitive methodology to identify, analyse, assess, treat and monitor all risks, whether they are insurable or not.

The effectiveness of the IRM process is measured by how well it aligns the key fundamentals of governance, business objectives, ethics, policies, standards, strategies and compliance. Kumba recognises the complexity and diversity of risks that face all its operational activities and integrates all efforts to maximise opportunities and minimise exposures to risk and to reduce them, where necessary, to levels commensurate with its risk appetite.

### Risk culture

Kumba's policy is zero tolerance for compliance failures and its aim is to identify speedily and to rectify any deviation. Promoting a risk-conscious culture is a constant focus throughout the group and this culture proactively supports achieving our strategic business objectives. Each risk owner is responsible for monitoring the existing and ever-changing risk profile of Kumba on a continuous basis. To this end, a monthly risk review that covers both internal and external risks has been instituted with findings reported to the executive committee.

Risk committees play an important role in identifying operational and strategic risks and in the development and application of generic mitigating strategies. They also have a risk oversight function by virtue of being closer to activities that could have adverse results.

## Risk management objectives

The risk management process is continuous, with well-defined steps, which support better decision-making by contributing a greater insight into risks and their impacts. Risks from all sources are identified and once they pass the materiality threshold, a formal process begins in which causal factors and consequences are identified and the correlation with other risks and the current risk mitigating strategy is reviewed.

One of the challenges is to ensure that mitigating strategies are geared to deliver reliable and timely risk information to support better decision-making.

## Reporting

Continuous monitoring of risk and control processes, across headline risk areas and other business specific risk areas, provides the basis for regular and exception reporting to business management and boards.

The risk assessment and reporting criteria are designed to provide the executive committee and the board, via the audit & risk committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted quarterly to the executive committee, the audit & risk committee and the board include an assessment of the likelihood and impact of risks materialising, as well as risk mitigation initiatives and their effectiveness.

In conducting its annual review of the effectiveness of risk management, the board considers the key findings from the ongoing monitoring and reporting processes, management assertions and independent assurance reports. The board also takes into account material changes and trends in the risk profile and consider whether the control system, including reporting, adequately supports the board in achieving its risk management objectives.

## Risk factors

Kumba's financial position, results of operation, growth, strategies and dividend policy could be materially adversely affected by risks, including any of those set out below. These risks could also have an adverse effect on the trading price of Kumba shares.

The risks described below are not the only risks faced by Kumba. Currently unidentified risk factors and risks deemed less material by directors may also impair operations.

### Regulatory

Mining operations, development and exploration are subject to extensive legislation and regulations. Changes in this regulatory environment could increase Kumba's cost of production and failure to comply could result in the revocation of consents, licences and rights it requires to conduct its business.

### Employee safety

Mining is a hazardous industry and failure to adopt high levels of safety management can result in a number of negative outcomes; harm to employees and communities that live near Kumba's mines as well as fines and penalties, liability to employees and third party for injury. Kumba operates in an industry that is subject to numerous safety regulations. Failure to provide a safe working environment may expose the organisation to compensation liabilities, loss of business reputation and other costs. Evolving regulatory standards and expectations can result in increased litigation and costs.

### Environment

Costs associated with rehabilitating land disturbed during the mining process and addressing environmental, health and community issues are estimated and provided for based on the most current information available. Estimates may, however, be insufficient and further issues may be identified. Any underestimated or unidentified rehabilitation costs will reduce earnings and could materially and adversely affect Kumba's asset values, earnings and cash flows. The operations of Kumba are subject to environmental legislation and regulations.

### Social

In considering the needs and quality of life of our community stakeholders, we are in discussions with elected representatives of the Dingleton township, 28km from Kathu, to develop a mutually beneficial solution to issues arising from the community's proximity to the mining operation at Sishen Mine.

### Employee health

The HIV/Aids infection rate in South Africa is high and may adversely impact on the operations of Kumba through reduced productivity, general medical costs and absenteeism.

### Employees

Kumba is, to a great extent, reliant on a large number of people employed in its operations. Despite Kumba's good relations with bargaining unit employees and their trade unions, we remain exposed to risks as a unionised operation posed by organised labour disruptions and disputes. The strong commodity cycle and large number of projects being developed in the resources industry have led to increased demand for skilled personnel. This has led, and could continue to lead to, increased capital and operating costs and difficulties in developing, acquiring and retaining skilled personnel.

### Infrastructure

While Kumba does not own or operate any of its logistical chain assets, it exports iron ore to international customers through a single channel rail and port. Labour and other operational risks associated with managing the rail and port operators' assets fall outside Kumba's direct control. Inadequate support facilities, services, installations (water, power and transportation) may affect the sustainability or growth of the business, leading to a loss of competitiveness, market share and reputation.

### Operational performance

The mining operations of Kumba are subject to the risks and hazards normally encountered in opencast mining operations. These risks include environmental hazards, such as unexpected geological pressures and ground subsidence, and operational risks relating to materials handling, industrial accidents, blasting and removing material. Mining and beneficiation processes also rely on key inputs, for example fuel and electricity. Appropriate insurance can provide protection from some, but not all, the costs that may arise from unforeseen events. If any of these risks should materialise, such an event could result in serious harm to employees and contractors, delays or losses in production, increased production costs and possible increase in liabilities. Disruption to the supply of key inputs, or changes in their pricing, may have a material and adverse impact on Kumba's asset values, costs, earnings and cash flows. Failure to meet production targets could result in increased unit costs. The impact is more pronounced at operations with a high level of fixed costs.

### Legal

Litigation may threaten Kumba's capacity to consummate important transactions, enforce contractual agreements or implement specific strategies and activities.

### Counterparty

Kumba may be exposed to counterparties that are unable to fulfil their obligations due to cash flow difficulties during global economic meltdown. In addition, problems involving credit risk at steel mills, which are the primary buyers of iron ore, could have a serious impact on Kumba's operating results.

### Technology

Kumba maintains IT and communication networks and applications to support its business activities. Technology failures may lead to business disruptions and security breaches may result in unavailability of systems, confidentiality of information being compromised or loss of integrity of information.

### Currency

Kumba's iron ore export prices are determined in US Dollars and the company negotiates iron ore prices in that currency with customers. Currency movements of the US Dollar against the Rand therefore could have a significant effect on the financial position and results of Kumba. The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise which may expose it to economic or accounting losses.

### Mining exploration and projects

Kumba seeks to develop new mining properties and expand its existing operations as a means of generating shareholder value. New mining properties are identified through an active exploration programme while current operations are expanded by technological applications to beneficiate medium-grade iron ore.

This capability will cover internal levers (delivery on projects) and external constraints, ensuring that "new tonnes" reach customers on or ahead of schedule. The associated challenge of this opportunity is to bring growth projects on stream, on time and below budget. Resource exploration and development are speculative in nature, characterised by a number of significant risks. Unanticipated delays and project execution complications along with increasing regulatory, environmental and social approvals may result in significant increases in construction costs and/or delays in construction. These increases/delays could materially and adversely affect the economics of projects.

### Commodity price fluctuations

Fluctuations in commodity prices can occur due to sustained price shifts reflecting underlying global economic and geopolitical factors, industry demand and supply balances and product substitution (steel). Kumba's products are influenced strongly by world economic growth, particularly that in Europe and Asia. The Chinese market has become a significant source of global demand for commodities. Whilst this increased demand represents a significant business opportunity, Kumba's exposure to China's economic fortunes and economic policies has increased.

Uncertainties and challenges faced by global economy resulted in unprecedented volatility and rapid decreases in commodity prices and volumes traded in the fourth quarter of 2008. Freight rates declined to a five-year low, reducing the cost of iron ore transport. The first half of 2009 is likely to be challenging for iron ore sales volumes. Price negotiations will be a key area of uncertainty in this volatile economic period.