

Risk management

Risk philosophy

Kumba maintains an integrated, enterprise-wide, risk management programme (IRM). Kumba applies a logical, systematic and repetitive methodology to identify, analyse, assess, mitigate and monitor all risks, whether they are significant 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 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 and to rectify any deviation. Promoting a risk-conscious culture is a 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.

To this end, a monthly and quarterly risk review that covers both internal and external risks has been instituted with findings reported to the executive committee and the audit and the risk committee.

Through the continuous risk assessment process, divisional and business unit risk committees play an important role in identifying operational and strategic risks

and also 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 decision-making by contributing a greater insight into risks and their impact. 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 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 the executive committee, audit and risk committee and the board.

The headline risk areas are:

- Foreign exchange
- Commodity prices fluctuations and iron ore demand
- Employee safety and health
- Environmental
- Social
- Legal and regulatory

- Reserves and resources
- Operational performance
- Mining exploration and projects
- Logistics infrastructure

The risk assessment and reporting criteria are designed to provide the executive committee and the board, via the audit and risk committee, with a consistent, enterprise-wide perspective of the key risks. The reports which are submitted monthly to the executive committee and quarterly to the audit and risk committee include an assessment of the likelihood and impact of risks materialising, as well as risk mitigating 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 takes into account material changes and trends in the risk profile and considers 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.

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

Foreign exchange

The group undertakes transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise which may expose it to economic or accounting losses. Kumba's iron ore export prices and shipping services 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.

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, licenses and rights it requires to conduct its business.

Operational performance

The mining operations of Kumba are subject to the risks and hazards normally encountered in open-pit 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 from open pits. If any of these risks should materialise, such an event could result in serious harm to employees and contractors and delays or losses in production. Failure to meet production targets could result in increased unit costs.

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 and consequently impact on Kumba's asset values, costs, earnings, cash flows and prospects.

Employee safety and health

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, all of which can have a material effect on earnings and cash flows. Kumba's commitment to Zero Harm continues to deliver visible achievements. The group improved on its safety performance during the year at existing operations, with only 10 lost-time injuries ('LTI's') being recorded.

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

Commodity price fluctuations and iron ore demand

Fluctuations in iron ore prices can occur due to sustained price shifts reflecting underlying global economic and geo-political factors, industry demand and supply balances and product substitution. 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.

Global steel demand in 2010 is forecast to grow in excess of 5%, leading to increasing iron ore demand. Chinese demand for iron ore is expected to rise further during 2010 and its share of the global seaborne iron ore demand is expected to grow. With a further recovery outside of China expected during 2010, the pressures on seaborne iron ore supply continue to rise. Overall, the global seaborne iron ore market remains structurally tight. The growing demand for iron ore is also manifested in the sharp rise in steel scrap and spot iron ore prices, with the latter approaching a 100% premium to 2009 contract prices.

Logistics infrastructure

While Kumba does not own or operate any of its logistical 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.

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 under-estimated or unidentified rehabilitation costs will reduce earnings and could adversely affect Kumba's asset values, earnings and cash flows. The operations of Kumba are subject to environmental legislation and regulations. If any of the legislation or regulations should be changed, Kumba's production cost could be increased.

Social

In considering the needs and quality of life of our community stakeholders, Kumba is in discussions with elected representatives of the Dingleton townships (28km from Kathu) and Northern Cape Provincial Government, to develop a mutually beneficial solution to issues arising from the community's proximity to the mining operation at Sishen Mine.

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. There has been an industry-wide shortage of experienced professional and technical skills across the board, both internally and in terms of contractors. The retention of artisans and other technical skills is critical for Kumba's current operations and expansion plans. The current economic slowdown is likely to mitigate the risk somewhat.