

# RISK MANAGEMENT

## RISK PHILOSOPHY

In line with its vision, Kumba maintains an integrated, enterprise-wide risk management programme (ERM). Kumba 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 ERM 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 APPETITE

The board, guided and assisted by the audit and executive risk management committees, defines and approves Kumba's risk appetite or risk-tolerance capacity. The challenge for the board is to determine how much uncertainty it is willing to accept in its endeavours to grow stakeholder value.

Kumba's risk-bearing capacity (tolerance) is a function of its ability to endure unexpected losses and the effect such losses may have on the company's share value.

Risk-bearing capacity is not a static value and constantly changes due to:

- International supply and demand for Kumba's products
- Production cost which in turn is influenced by changes in input costs
- The quantity and value of fixed and current assets used in the production process.

The main objective in determining risk-bearing capacity is to establish Kumba's optimal risk-tolerance capacity.

The most effective way for the board to demonstrate its risk appetite (and commitment to the ERM programme) is to exceed shareholders' expectations on performance. Through its actions and proven commitment, the board can clearly demonstrate:

- How much risk will be allowed to be taken to achieve strategic business objectives
- That risks which could impact on performance have been identified, tracked and monitored
- How the process could potentially increase shareholder value.

A centralised ERM hub, dedicated to strategic direction and policy development, and risk committees operating at business-unit level to implement ERM policy, reflect an embedded ERM programme in Kumba.

Prominent governance failures in global companies and the resulting reputational damage have given wider prominence to corporate ethics and compliance issues. In Kumba, the focus is on bringing these fundamental components of the ERM process ever closer to operational risk management processes.

Our ERM approach is aimed at:

- Minimising losses caused by adverse events
- Reducing earnings surprises and reputational damage
- Contributing to the protection of shareholder value.

## RISK CULTURE

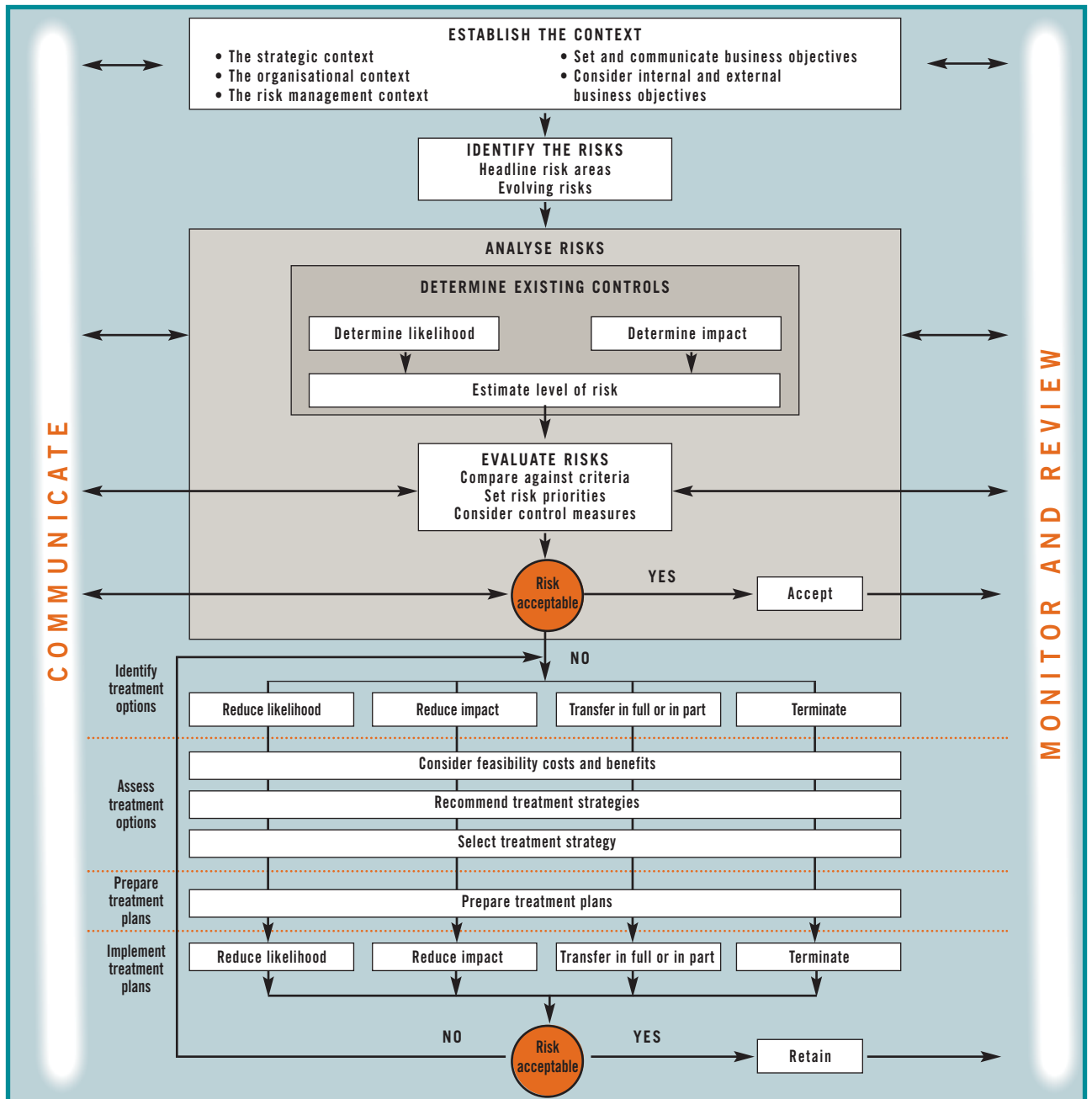
Kumba's policy is zero tolerance for compliance failures and its aim is to

speedily identify and rectify any deviation. Promoting a risk-conscious culture is a constant focus throughout the company and proactively supports achieving our strategic business objectives. Each risk owner is responsible for continuously monitoring the existing and ever-changing risk profile of the company.

Divisional and business-unit risk committees play an important role in identifying operational risk 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. Each committee is chaired by the head of the business centre and meets quarterly. The group risk manager attends all meetings.

## RISK MANAGEMENT OBJECTIVES

The risk management process is continuous, with well-defined steps which, when taken in sequence, 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.



# Integrated management of complex and diverse risks

## TOP RISKS

Risk	Impact	Likelihood	Control measures
<ul style="list-style-type: none"> <li>• <b>Foreign exchange:</b> Impact of continued rand and Australian dollar strength on profitability.</li> </ul>	High	Medium	Judicious hedging policy; continuous margin improvement initiatives with rigorous tracking.
<ul style="list-style-type: none"> <li>• <b>Counterparty:</b> Insufficient availability of zinc concentrates of acceptable quality and cost.</li> <li>• Impact of power interruptions on production at smelter operations – one-second outage equates four-hour restart procedure.</li> </ul>	Medium	High	Secure alternate suppliers and long-term concentrate offtake agreements from foreign mines. Maximise Rosh Pinah and Black Mountain offtake.
<ul style="list-style-type: none"> <li>• <b>Commodity price:</b> Sluggish titanium slag market recovery affecting heavy mineral division's profitability.</li> </ul>	Medium	High	Load-sharing agreement exists between heavy industry and utility supplier in region to reduce outages to minimum.
<ul style="list-style-type: none"> <li>• <b>Operational performance:</b> Rising energy costs (oil and power) increase production cost.</li> <li>• Availability of large (oversize) tyres negatively affecting throughput at open-cast mines.</li> </ul>	Medium	Medium	Analysis of TiO <sub>2</sub> market forces; cost-reduction initiatives; sustained focus on continuous improvement and ramp up furnaces to full capacity.
<ul style="list-style-type: none"> <li>• <b>Capital projects:</b> Increase in cost of capital projects as a result of buoyant construction market.</li> </ul>	Medium	Medium	Monitor whether rising oil prices are jeopardising world economic growth; initiate projects to save on consumption of fuel.
<ul style="list-style-type: none"> <li>• <b>Mergers and acquisitions:</b> Ineffective management of integration of new coal and heavy mineral assets post-transformation transaction.</li> </ul>	Medium	Medium	Eighteen-month window for planning comprehensive tyre management programme and road quality management.
<ul style="list-style-type: none"> <li>• <b>Employees:</b> Availability and loss of skills (especially artisans) impacting on current production and future growth.</li> </ul>	Medium	Low	Segment projects into major commodity items, ie steel, labour, civil, electrical, etc, and apply escalation per commodity drivers; constantly update database on escalations on own experience and industry trends.
<ul style="list-style-type: none"> <li>• <b>Reserves and resources:</b> Failure of transformation transaction resulting in Kumba not being able to convert existing rights to new-order rights.</li> </ul>	Low	Medium	Steering committee established consisting of senior Kumba and Eyesizwe management to monitor and guide merger integration, planning and process; integration team established that consists of Kumba and Eyesizwe team members to plan and execute integration – reports to steering committee on a regular basis.
<ul style="list-style-type: none"> <li>• <b>Reserves and resources:</b> Failure of transformation transaction resulting in Kumba not being able to convert existing rights to new-order rights.</li> </ul>	High	Low	Maintain networks, effective recruitment, training and retention strategies; competitive remuneration to retain skills; benchmarking and maintain alliances.
<ul style="list-style-type: none"> <li>• <b>Reserves and resources:</b> Failure of transformation transaction resulting in Kumba not being able to convert existing rights to new-order rights.</li> </ul>	High	Low	Empowerment transaction announced 13 October 2005 and implementation planned for second quarter of 2006 will satisfy ownership requirements on mining charter; Documentation for conversion of rights has already been submitted and accepted by the Department of Minerals and Energy.