

PRINCIPAL RISKS AND UNCERTAINTIES

The risks (and opportunities) set out below represent selected uncertainties and trends that may impact on ARM's execution of its strategy in the future.

For a detailed analysis of financial instruments and risk management issues refer note 34 to the financial statements, and for risk management procedures and processes refer page 123 of the corporate governance section.

Risk	Mitigation
<p>Commodity price volatility</p> <p>ARM's revenue, earnings and cash flows are dependent on the prevailing commodity prices which are determined by the supply of and demand for raw materials, and are linked to global economic conditions. The recent dramatic and rapid deterioration in the global economy, resulting in prices of the majority of commodities trading at dramatically lower levels, has highlighted the significance of this risk factor (Refer to the profit variance analysis in the Financial Review, page 17).</p>	<p>ARM manages the risk of commodity price fluctuations through maintaining a diversified portfolio of commodities. The general policy is not to engage in commodity price hedging. ARM, in close association with its partners, constantly monitors the commodity markets and matches production with market demand and commodity prices.</p> <p>Focus and emphasis on containing and reducing operating expenses also assists in mitigating this risk.</p> <p>The target of having ARM operations in the lower half of the applicable cost curves provides a significant competitive advantage to ARM given the lower level of commodity prices.</p>
<p>Fluctuations in currency exchange rates</p> <p>ARM's products are mostly sold in US Dollars. Fluctuations in the exchange rate of the South African Rand against the US Dollar can have a material impact on ARM's financial results. (Refer note 34 in the Financial Statements.)</p>	<p>ARM's foreign exchange hedging is limited to specific items of capital expenditure on major projects only. Movement in the Rand provides both an opportunity and a risk, and ARM's philosophy is thus to consider currency hedges only on specific purchase transactions but the general policy is that ARM does not hedge. This exposure is to some extent offset by the inverse relationship which exists between the Rand/US Dollar exchange rate and most US Dollar commodity prices.</p>
<p>Event risks</p> <p>ARM's operations are potentially subject to events, many of which are outside management's control. These operating risks include: unusual or unexpected geological features, ground conditions or seismic activity, climatic conditions (including those resulting from climate change) such as flooding and drought, congestion at ports, industrial action or disputes, environmental hazards, technical failures, fires, explosions and other incidents at mines, smelters, etc.</p>	<p>ARM has an effective and well developed risk management process which has been in place for a number of years. Commitment to comprehensive and effective risk management is an imperative at all levels within ARM.</p> <p>ARM has introduced an integrated approach to risk management, which includes an Enterprise Risk Management process and a Balanced Scorecard approach. This integrated approach to risk management not only helps to ensure appropriate corporate governance compliance, but also provides a practical and effective tool for the management of risk within ARM.</p>
<p>Inflation/increased cost</p> <p>As ARM is unable to directly set the prices it receives for the commodities it produces its ability to contain costs in an inflationary environment and maintain low-cost efficient operations can have a significant impact on its profitability.</p> <p>ARM's ability to contain or reduce costs and achieve operational efficiency is a measure of the quality of its operational management and stewardship of its assets.</p>	<p>Cost efficiency and cost reduction remain important ongoing performance measurements within ARM. Operational efficiency is identified as one of its four key strategies. ARM ensures that investment is made in high quality and low cost assets. Volume growth which allows for economies of scale, ensures appropriate cost control.</p>
<p>Reserves and resources</p> <p>ARM's mineral resources and ore reserves, as set out later in this report, are based on numerous technical and economic assumptions which are subject to change.</p> <p>Mine reserves decline as commodities are extracted and thus successful ongoing exploration and development activities are important. Various governmental permits are required to utilise these reserves.</p>	<p>Annual updates and revisions are undertaken in the context of changing markets and strategic objectives.</p> <p>ARM continues to invest in exploration and development/maintenance capital to ensure optimal long-term extraction of ore reserves. ARM closely monitors regulatory compliance in terms of new order mining rights in South Africa.</p>



Risk	Mitigation
Safety, health and environment (SHE)	
<p>Although not extensively exposed to deep-level mining operations, mining remains a hazardous industry and is subject to extensive and increasingly more stringent SHE regulations and legislation. Risks which could potentially harm ARM's financial position and reputation include:</p> <ul style="list-style-type: none"> ▶ Lost time due to impact of illness e.g HIV & AIDS; ▶ Accidents which occur, despite extensive training and safety procedures; ▶ Increased rehabilitation costs due to changing variables; and ▶ Costs associated with changing compliance requirements. 	<p>Ensuring the safety, health and wellbeing of all employees at work is of paramount importance to ARM. This, together with care for the environment in which ARM operates, are fundamental to ARM's sustainable development strategy and initiatives.</p> <p>To ensure ongoing improvement, risk preparedness and compliance, ARM's officials constantly monitor and review procedures, initiate awareness campaigns and regularly engage with government and regulators, and monitor legislative requirements.</p> <p>External independent specialist audits of the SHE performance of all operations are undertaken to determine current status of legal compliance, compile risk profiles of each operation as well as identify opportunities for improvement.</p> <p>Action plans to address findings, risk improvement recommendations and gaps identified during the audits are compiled and addressed by each operation and are presented at a Group SHE Forum.</p> <p>The Group SHE Manager, reporting directly to the Chief Executive Officer and oversight by the Sustainable Development Committee, ensures oversight over the process and provides impetus and guidance to operations in the achievement of corporate goals.</p>
Off-mine infrastructure	
<p>ARM does not control major logistics infrastructure related to bulk export materials, where a significant portion of revenue is sourced. Electricity and water supply is also supplied and controlled by governmental institutions.</p>	<p>ARM has long-term contracts in place, negotiated at economically viable tariffs.</p> <p>Senior management task teams meet regularly with relevant authorities to ensure minimal risk.</p>
Project development	
<p>A mining company needs a significant pipeline of growth projects to ensure its sustainability into the future. Ineffective management of projects can result in cost overruns and costly delays in going into production that could prevent it from benefiting from favourable market developments.</p>	<p>ARM currently has three major projects in progress:</p> <ul style="list-style-type: none"> ▶ Nkomati Nickel Mine expansion; ▶ Khumani Iron Ore Mine expansion; and ▶ Goedgevonden Thermal Coal Project. <p>The development of the Vale/ARM joint venture's copper assets is under consideration. ARM has a proven track record of project delivery on time and within or below budget.</p> <p>ARM engages in rigorous feasibility studies before initiating capital investments in projects and ensures best practices are adopted across the various divisional operations.</p>
Production curtailment	
<p>The current global recession has resulted in a dramatic reduction in demand for commodities, which negatively impacted on commodity prices. As a result many mining companies have curtailed production. While this curtailment allows mining companies to remain cash positive, reduce average operating costs and avoid over supply of markets or inventory build-up, it may also result in them incurring costs in the form of redundancy payments, the cost of resuming production, indirect costs in the form of foregone revenue, the deterioration of assets or increased unit costs. Closure of operations can impact negatively on employees and the local communities.</p>	<p>The Machadodorp Works has been operating at minimal levels due to the global recession, while Cato Ridge Works has considerably reduced production and shut down certain of its furnaces. The mines feeding these smelters have commensurately cut back production.</p> <p>A thorough review of the likely impacts and risks is undertaken prior to suspending operations and mitigating actions implemented to reduce associated costs and offset the socio-economic impact of closures, where possible. Suspended operations are maintained under care and maintenance programmes to ensure a rapid restart and preserve asset quality and operational integrity. Restocking at all operations has occurred to ensure a rapid response to any market opportunities. Most operations have commenced increasing production.</p>