



# Remuneration report

## for the year ended 31 December 2009

### Kumba's remuneration philosophy

The human resources, remuneration and nominations committee ensures that the principles of accountability and transparency are applied and that remuneration is linked to performance and that they support the business strategy. The overall remuneration philosophy remains unchanged from prior years; however, certain aspects with respect to the components of the reward programmes have been reviewed and amended during 2009.

The following remuneration philosophy is applied by Kumba:

- To motivate and reinforce the performance of individuals;
- To attract and retain talented people;
- To compete in the marketplace with the intention of being a preferred employer as a key element in supporting the implementation of Kumba's business strategy; and
- To apply it equitably, fairly and consistently in relation to job responsibility, the employment market and personal performance.

The board believes that a properly constituted and effective remuneration committee is key in improving the link between directors and executive committee members' pay and performance, with the ultimate aim to add value to shareholders.

This report describes the remuneration policy and directors and executive members' remuneration for the 2009 financial year and includes:

- A description of the human resources, remuneration and nominations committee (the Remco), its members, its role and activities during 2009;
- An overview of the group's remuneration policy and practice and how the policy links into the company's business strategy;
- A description of the key elements of the remuneration package – salary, benefits, pension, short-term incentives and long-term incentives - and information relating to 2009 payments;
- Details of the executive directors' contracts of employment;
- Details of fees paid to non-executive directors;
- Details of the remuneration paid to executive committee members; and
- Details of the various long-term incentive schemes.

During 2009, in addition to attending to regular matters, the committee focused specifically on:

- The introduction of the Bonus Share Plan for executive directors and senior employees replacing the Long-Term Incentive Plan, the Share Appreciation Rights Scheme and the Deferred Bonus Plan; and
- The continued appropriateness of the current reward programmes given volatile market conditions, pay for performance strategy, performance against targets set and the group's performance.

### The remuneration committee

This committee functioned as a sub-committee of the Kumba board since Kumba's listing in November 2006. It focuses its activities on the group's remuneration policy, the determination of levels of remuneration and short- and long-term incentive plans.

The role of the remuneration committee is to:

- Provide guidance on the evaluation of the performance of executive directors;
- Review and approve targets and objectives for all performance related remuneration schemes for executive directors and executive committee members and approve payments under these schemes;
- Review and recommend to the board the remuneration of executive directors and executive committee members including short- and long-term incentives;
- Approve principles on which short-term incentives for all staff are based;
- Approve the formulae on which all grants pursuant to Kumba's long-term incentive schemes to staff are based;
- Approve the overall cost of remuneration increases awarded to staff; and
- Approve the overall cost of short- and long-term incentives awarded to staff.

During the year the members of the committee were: Mr AJ Morgan, Mr PB Matlare, Mr PM Baum and Mr PL Zim. Mr AJ Morgan, an independent non-executive director, is chairman of the committee. Mr PM Baum resigned as a member with effect from 12 January 2010. The chief executive officer of Kumba and other members of management attend the meetings of the committee at the request of the committee, but they are requested to leave the meeting prior to decisions being taken.

# Remuneration report

## for the year ended 31 December 2009 (continued)

The remuneration committee considers external market surveys on remuneration matters and the interests of shareholders when deliberating on the remuneration of directors and senior management.

In applying agreed remuneration principles, the remuneration committee is committed to principles of accountability, transparency and good governance, as well as to ensuring that the reward arrangements are linked to individual and group performance and that they are in support of the business strategy.

The committee meets at least four times a year and is empowered to obtain such external or other independent professional advice as it considers necessary to carry out its duties.

The committee met four times during the year. Attendance at meetings was as follows:

Member	3 Feb 2009	12 May 2009	13 Aug 2009	11 Nov 2009
AJ Morgan	✓	✓	✓	✓
PB Matlare	✓	A	✓	✓
PM Baum	✓	✓	✓	A
PL Zim	A	✓	A	✓

✓ – Indicates attendance.  
A – Indicates absence with apology.

Kumba's application of remuneration practices and programmes:

- Aims to provide competitive market-related rewards in the specific labour markets in which Kumba's employees are employed;
- Determines the value proposition of the various positions within job families or functions;
- Ensures that performance management influences the remuneration components and incentives; and
- Applies good governance to remuneration practices within approved structures.

Overview of the group's remuneration programmes:

Element	Fixed/ Variable	Objective	Delivery
Salary	Fixed	Reflects scope and nature of role, performance and experience	Cash
Non-monetary benefits	Variable	Provision of non-monetary items	Benefits in kind
Pension	Fixed	Provision of retirement benefits	Contribution to pension and provident funds
Short-term incentives	Variable	Rewards and motivates achievement of agreed group performance objectives	Cash of up to a maximum of 60% of basic employment cost for stretch target achievement
Long-term incentives	Variable	Alignment with shareholder interests and creation of long-term value	Shares or cash at the discretion of the board

### Directors' fees and remuneration

The directors are appointed to Kumba's board based on their ability to contribute competencies and experience appropriate to achieving the group's strategy to be the leading value-adding iron ore supplier to the global steel industry. The purpose of the policy in respect of directors' fees and remuneration is to ensure that executive directors and senior managers receive remuneration that is appropriate to their scope of responsibility and contribution to operating and financial performance, taking into account industry norms and external market and country benchmarks.

In applying the remuneration principles adopted, the remuneration committee aims to encourage long-term performance and the continuous alignment of such performance with the strategic direction and specific value drivers of the business.

### Executive directors

The remuneration of executive directors consists of two components: a fixed component and a variable component comprising the executive performance short-term incentive and long-term incentives in terms of Kumba's Bonus Share Plan and Long-Term Incentive Plan. Both fixed and variable components are designed to ensure that a substantial portion of the remuneration package is



linked to the achievement of the company's strategic objectives and improved group business performance, aligning incentives awarded to the enhancement of shareholder value.

A portion of the approved cash salary and the annual performance incentive elements of the chief financial officer, Mr VP Uren, are determined and paid in terms of a separate employment agreement concluded between Kumba International BV and the respective executive director for services rendered outside South Africa. The remuneration paid by Kumba International BV is calculated with reference to the time spent on services performed offshore.

#### Fixed remuneration

Following established practice, the fixed salaries of executive directors are reviewed annually in January. Adjustments to the fixed packages are determined with reference to the scope and nature of an individual's role and his performance and experience. The fixed packages are also compared with the median pay levels of other South African companies of comparable size and complexity, to ensure market competitiveness and performance excellence. The review also takes into account any change in the scope of the role performed by the individual, changes required to meet the principles of the remuneration policy and market competitiveness.

In addition to a basic cash salary, executive directors receive benefits that include membership of the group's medical health care scheme and vehicle benefits.

Retirement and risk benefits, including life cover and death-in-service benefits, are provided to executive directors subject to the rules of the Kumba Pension and Provident Selector Funds. Contributions are calculated as a percentage of the pensionable income and are paid to contributory retirement schemes established and/or approved by the group. The rate of contribution for each executive director is calculated on the basis of the assumption that executive directors will retire at the age of 60 years.

The basic cash salaries of executive directors were reviewed with effect from 1 January 2009. The basic cash salaries for the financial year are as follows:

R'000	2010 salary	2009 salary	2008 salary
CI Griffith	4,423 <sup>1</sup>	<b>3,085</b>	1,518 <sup>2</sup>
VP Uren <sup>3</sup>	3,208	<b>2,771</b>	2,495

1. The committee approved a market adjustment and annual performance adjustment for 2010.
2. CI Griffith was appointed as executive director effective 1 July 2008. The 2008 figure represents six months' salary.
3. Included in salary above is R416,514 (US\$49,585) (2008: R437,355 (US\$47,678)) payable to VP Uren by Kumba International BV in respect of services rendered as director.

#### Short-term incentives

In addition to fixed remuneration, each executive director participates in an executive performance short-term incentive scheme approved annually by the committee. This scheme is designed to reward and motivate the achievement of agreed group financial, business unit financial (where applicable), business unit strategic and performance objectives linked to the key performance areas of their respective management portfolios.

The approved principles of the short-term incentive scheme for the 2009 financial year comprise financial, business and strategic performance criteria and metrics. Kumba's financial performance targets are set by the board using earnings before interest and tax and return on capital employed as measures. Actual performance on Kumba's financial targets determined 50% of the executive directors' short-term incentive in 2009. The balance of the short-term incentive is determined by the extent to which strategic and other business performance objectives are achieved.

The performance criteria and metrics of the various Kumba businesses vary depending on business-specific strategic value drivers and key objectives as approved by the board. Focused value drivers derived from group business objectives include targets agreed for growth, safety and employment equity to ensure continued focus on these important business objectives.

On 3 February 2009, the committee considered an overall assessment of the performance of the executives participating in the scheme against the agreed group financial targets and the levels of achievement against their strategic and other key performance objectives within their respective areas of accountability. The annual incentives for the 2008 financial year were subsequently approved by the board at its meeting of 13 February 2009.

# Remuneration report

## for the year ended 31 December 2009 (continued)

The table below sets out the short-term incentive paid during 2009. The short-term incentive paid in 2009 is based on the group and personal performance for the 2008 financial year and is calculated as a percentage of basic employment cost (BEC) approved for the pay cycle.

Executive directors	2008 Total fixed remuneration R'000	2008 Basic Employment Cost (BEC) used for calculating incentive R'000	Annual incentive R'000	Annual incentive as a percentage of 2008 fixed remuneration %
CI Griffith <sup>1</sup>	1,773	1,518	746	42% (49% of BEC)
VP Uren <sup>2</sup>	2,938	2,495	1,250	43% (50% of BEC)

1. CI Griffith's 2008 annual incentive is pro-rated based on six months' service.
2. Included in annual incentive above is R155,715 (US\$18,537) payable to VP Uren by Kumba International BV in respect of services rendered as director in 2008.

### Long-term incentives

Executive directors and senior management participate in the following long-term incentive schemes as proposed by the remuneration committee and approved by the board:

#### Old schemes – transferred to Kumba post unbundling

1. Management Share Option Scheme (no grants awarded since unbundling)
2. Phantom Share Scheme (no grants awarded since unbundling)

#### New schemes

1. The Share Appreciation Rights Scheme (no new grants will be made subsequent to the implementation of the Bonus Share Plan)
2. The Long-Term Incentive Plan
3. The Deferred Bonus Plan (no new grants will be made subsequent to the implementation of the Bonus Share Plan)
4. The Bonus Share Plan

The Bonus Share Plan for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the annual general meeting held on 20 March 2009.

### Management Share Option Scheme

Prior to the unbundling of the then Kumba Resources Limited (Kumba Resources) senior employees and directors of Sishen Iron Ore Company participated in the Kumba Resources Management Share Option Scheme. At the time of unbundling in order to place, as far as possible, all participants in the Kumba Resources Management Share Option Scheme in the position they would have been in if they remained shareholders of the then Kumba Resources Limited, the schemes continued in Kumba Iron Ore Limited and in Exxaro Resources Limited.

The Management Share Option Scheme was adopted by the group post-unbundling subject to certain amendments that were made to the Kumba Resources Management Share Option Scheme. As a result the senior employees and directors that participated in the Kumba Resources Management Share Option Scheme subsequently became participants in the new Kumba Iron Ore Management Share Option Scheme.

From the date of the unbundling, no rights in terms of the Kumba Management Share Option Scheme have been granted.

No executive directors currently participate in the scheme.

### Phantom Share Scheme

As a result of restrictions related to the empowerment transaction of Kumba Resources, certain executive directors and senior employees who participated in the Kumba Resources Management Share Option Scheme were not able to receive certain grants of options which would have been made in the ordinary course of operations.

From the date of the unbundling, no rights in terms of the Phantom Share Scheme have been granted.

No executive directors or senior employees currently participate in the scheme.



### The Share Appreciation Rights Scheme

Executive directors and senior employees have received two annual grants of share appreciation rights, which are rights to receive Kumba shares equal to the value of the difference between the market value of a Kumba share on the day immediately preceding the date of exercise of the right (exercise price) and market value of the Kumba share on the day immediately preceding the date of grant of the right (grant price).

The vesting of the rights is subject to specific performance conditions. The duration and specific nature of the conditions as determined by the remuneration committee of Kumba are stated in the letter of grant for each annual grant. The measurement of the performance conditions will be tested after three years. Retesting of the performance condition is permitted on the first and second anniversary of the end of the performance period. After vesting, the rights will become exercisable. Rights not exercised within seven years of grant date will lapse.

With the implementation of the Bonus Share Plan in 2009 no further rights are granted under the scheme.

### The Long-Term Incentive Plan (LTIP)

Executive directors and senior employees receive annual grants of conditional awards of Kumba shares.

The performance conditions for the annual LTIP awards made since the inception of the plan in 2007 are subject to the achievement of stretching performance targets relating to total shareholder return (TSR) and to a financial measure, return on capital employed (ROCE), over a fixed three-year period. The conditional award will vest after the performance period of three years, and to the extent that specific performance conditions have been satisfied. No retesting of the performance conditions is allowed.

Upon vesting the employee will be entitled to shares in Kumba to settle the value of the vested portion of the conditional award. The conditional awards which do not vest at the end of the three-year period will lapse.

With the implementation of the Bonus Share Plan in 2009 only executive directors qualify for grants in terms of this scheme.

### The Deferred Bonus Plan

The purpose of the plan is to encourage executive directors and senior employees to utilise part of their after tax short-term incentive payment for the purpose of acquiring shares (pledged shares) in Kumba. Participants who own pledged shares are entitled to all rights in respect of these shares including dividend and voting rights. If the pledged shares are held for the pledge period (usually three years) and the participants remain in the employ of the company for the pledge period, then the company will provide a matching award of free shares (matching shares). Executive directors and senior management first participated in this plan from 2008.

With the implementation of the Bonus Share Plan in 2009 no pledged shares will be granted under the scheme in future.

### Bonus Share Plan

The Bonus Share Plan for executive directors and senior employees was implemented during 2009. The adoption and implementation of the scheme was approved by shareholders at the annual general meeting on 20 March 2009. The Bonus Share Plan is offered to executive directors and senior managers who have the opportunity and the responsibility to contribute towards the group's overall strategic objectives. The Bonus Share Plan has two components:

- A payment of an annual cash bonus (refer to the short-term incentive scheme); and
- A forfeitable award of shares linked to the participant's annual cash bonus award – these are known as Bonus Shares.

The number of Bonus Shares awarded is determined with reference to the amount of the annual cash bonus an employee receives which is directly linked to the employee's personal performance and potential. The shares are held by an escrow agent and released to the employee three years after the award date (subject to continuous employment). During the three-year period, the employee is entitled to all rights attaching to the Bonus Shares including dividend entitlements and voting rights.

# Remuneration report

## for the year ended 31 December 2009 (continued)

Executive directors' remuneration for the year was as follows:

Executive directors (R'000)	Salary	Short-term incentive <sup>1</sup>	Retirement funding	Other benefits <sup>2</sup>	Total 2009	Total 2008
CI Griffith <sup>3</sup>	3,085	746	345	222	<b>4,398</b>	1,773
VP Uren <sup>4</sup>	2,771	1,250	270	240	<b>4,531</b>	3,574
EJ Myburgh <sup>5</sup>	–	–	–	–	–	2,646
<b>Total</b>	<b>5,856</b>	<b>1,996</b>	<b>615</b>	<b>462</b>	<b>8,929</b>	<b>7,993</b>

- Short-term incentive awarded, based on the group results for the 2008 financial year.
- Includes the encashment of leave accrued.
- The remuneration for 2008 relates to the period 1 July 2008 to 31 December 2008.
- Included in salary above is R416 514 (2008: R437 355) paid to VP Uren by Kumba International BV in respect of services rendered as director the previous year.
- The remuneration for 2008 relates to the period 1 January 2008 to 30 June 2008.

### Executive directors' service contracts

Executive directors are not employed on fixed-term contracts and have standard employment service agreements.

An executive director is required to retire as executive committee member and the board at the age of 60, unless requested by the board to extend his or her term.

Executive directors <sup>1</sup>	Employment date	Date first appointed to the board
CI Griffith	1 July 2008	1 July 2008
VP Uren	7 April 2006	7 April 2006

- In terms of the Board charter, the termination of an employment contract of an executive director will result *ipso facto* in the termination of his membership of the board, unless the board determines otherwise.

### Non-executive directors' fees

The committee recommends fees payable to the non-executive directors for approval by the shareholders. The annual fees payable to non-executive directors for the period commencing 1 January 2009 were approved by the shareholders at the AGM of members of 20 March 2009. Fees are approved for an annual period commencing on 1 January each year. The revised fees of the non-executive directors will be submitted to the shareholders for approval at the next AGM on 31 March 2010.

Non-executive directors' fees approved for 2009 were as follows:

Board/Committee (R'000)	Jan 2009 to Dec 2009	
	Member	Chairman
Chairman of the Kumba board		<b>1,000</b>
Kumba board	<b>150</b>	
Audit committee	<b>101</b>	<b>168</b>
Other board committees	<b>67</b>	<b>134</b>

Non-executive directors' fees paid during the year were as follows:

Non-executive directors (R'000)	Board meeting fees	Committee fees	Total 2009	Total 2008
PL Zim	1,000	–	<b>1,000</b>	660
ZBM Bassa <sup>1</sup>	150	226	<b>376</b>	NA
PM Baum <sup>2</sup>	150	67	<b>217</b>	200
GS Gouws <sup>2</sup>	150	–	<b>150</b>	140
DD Mokgatle	150	235	<b>385</b>	410
ND Moyo	150	101	<b>251</b>	230
AJ Morgan	150	302	<b>452</b>	328
PB Matlare	150	134	<b>284</b>	320
<b>Total</b>	<b>2,050</b>	<b>1,065</b>	<b>3,115</b>	<b>2,288</b>

- Includes an amount of R57,649 paid in respect of services rendered in 2008.
- Fees paid to their respective employers and not to the individuals.
- Fees for non-executives are determined with reference to market data obtained from formal published surveys.
- Non-executive directors appointed by the board shall be subject to retirement by rotation and re-election by shareholders in accordance with the terms of the Articles of Association of the company.



### Executive committee members' remuneration

The fixed remuneration of members of the group executive committee other than executive directors was reviewed by the committee at its meeting held on 11 November 2009. The fixed salaries were compared with the median pay levels of other South African companies, based on the scope and nature of each individual's role and his or her performance and experience.

Similar to the executive directors, the members of the group executive committee participate in the annual executive performance incentive scheme referred to above. The schemes are designed to recognise the contributions and value added to the group's financial position and performance. These schemes also play an important role in retaining key employees.

The aggregate remuneration of members of the Kumba executive committee (excluding that of the executive directors disclosed separately above) for the year was as follows:

Executive committee members (R'000)	Salary	Short-term incentive	Retirement funding	Other benefits <sup>1</sup>	Total 2009	Total 2008
Aggregate total	10,764	5,283	1,251	2,259	<b>19,557</b>	16,802
Number of members					<b>8</b>	8

1. Includes the encashment of leave accrued.

### Long-term incentive schemes

#### Kumba long-term incentive schemes

The interests of the directors in shares of the company provided in the form of share options, rights, conditional awards and pledged shares are shown in the tables below.

No variations have been made to the terms and conditions of the schemes during the year, including the performance conditions to which the granting and vesting of the options, rights and conditional awards are subject.

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for the year ended 31 December 2009 (continued)

## Management Share Option Scheme

	Number				Weighted average exercise price (Rand)	R'000 Share-based payment expense	
	Balance at beginning of year	Share options exercised	Share options forfeited	Balance at end of year		2009	2008
Executive committee members	48,770*	(26,870) <sup>1</sup>	(1,980)	19,920	38.02	179	2,293

1. 26,870 share options with a weighted average exercise price of R38.02 per share were exercised during the period 1 January 2009 to 31 December 2009 on which a gain of R4,378,086 was realised.

## Share Appreciation Rights Scheme

	Number			Weighted average exercise price (Rand)	R'000 Share-based payment expense	
	Balance at beginning of year	Rights granted	Balance at end of year		2009	2008
<b>Executive directors</b>						
CI Griffith	7,540	–	7,540	–	227	155
VP Uren	16,154	–	16,154	–	315	260
<b>Total</b>	<b>23,694</b>	<b>–</b>	<b>23,694</b>	<b>–</b>	<b>542</b>	<b>415</b>
<b>Executive committee members</b>	37,494*	–	37,494	–	944	770

## Long-Term Incentive Plan

	Number			Weighted average exercise price (Rand)	R'000 Share-based payment expense	
	Balance at beginning and end of year	Conditional awards granted	Balance at end of year		2009	2008
<b>Executive directors</b>						
CI Griffith	7,548	18,586	26,134	–	720	275
VP Uren	15,815	16,858	32,673	–	1,084	361
<b>Total</b>	<b>23,363</b>	<b>35,444</b>	<b>58,807</b>	<b>–</b>	<b>1,804</b>	<b>636</b>
<b>Executive committee members</b>	36,937*	–	36,937	–	–	1,170

## Deferred Bonus Plan

	Number			Weighted average exercise price (Rand)	R'000 Share-based payment expense	
	Balance at beginning of year	Pledged shares granted	Balance at end of year		2009	2008
<b>Executive directors</b>						
VP Uren	648	–	648	–	62	46
<b>Total</b>	<b>648</b>	<b>–</b>	<b>648</b>	<b>–</b>	<b>62</b>	<b>46</b>
<b>Executive committee members</b>	–*	–	–	–	–	11

\* The difference in the balances at the beginning of the year to what was previously disclosed is due to changes in the composition of the executive committee.



## Bonus Share Plan

	Number		Weighted average exercise price (Rand)	Share-based payment expense	
	Bonus shares awarded	Balance at end of year		2009	2008
<b>Executive directors</b>					
C Griffith	7,328	7,328	–	264	–
VP Uren	9,528	9,528	–	344	–
<b>Total</b>	<b>16,856</b>	<b>16,856</b>	<b>–</b>	<b>608</b>	<b>–</b>
<b>Executive committee members</b>	41,736	41,736	–	1,406	–

## Anglo American plc Group Long-term incentive schemes

CI Griffith and VP Uren through their employment at Kumba, a member of the Anglo American plc group, retained of the awards granted whilst participants in the Anglo American plc group long-term incentive schemes. CI Griffith and VP Uren no longer receive awards under these schemes.

As at 31 December 2009 the following awards under the Anglo Platinum long-term incentives schemes were held by CI Griffith:

	Balance at beginning and end of year	Weighted average exercise price (Rand)
Anglo Platinum Share Option Scheme	5,693	233.24
Anglo Platinum Executive Share Appreciation Scheme	8	230.21
Anglo Platinum Executive Share Option Scheme	2,987	677.99

	Balance at beginning and end of year
Anglo Platinum Long Term Incentive Plan	2,991

As at 31 December 2009 all the following awards under the Anglo American long-term incentives schemes held by VP Uren at the beginning of the year, have vested, and have been released/exercised.

	Balance at beginning and end of year	Conditional awards released	Balance at end of year	Market price release date (Rand)
Anglo American Executive – LTIP	6,800	(6,800)	–	175.28
				Balance at end of year
Anglo American Executive – Restricted shares				2,734

## Directors' beneficial interest in Kumba

The aggregate beneficial interest in Kumba at 31 December 2009 of the directors of the company and their immediate families (none of which have a holding greater than 1%) in the issued shares of the company are detailed below. There have been no material changes in these shareholdings since that date.

Beneficial interest	2009			2008		
	Number of shares	Long-term incentive schemes <sup>1</sup>	Total beneficial interest	Number of shares	Long-term incentive schemes <sup>1</sup>	Total beneficial interest
<b>Executive directors</b>						
CI Griffith	330	41,002	41,002	–	15,088	15,088
VP Uren	5,000	59,003	64,003	4,250	32,144	36,394
<b>Total</b>	<b>5,330</b>	<b>100,005</b>	<b>104,255</b>	<b>4,250</b>	<b>47,232</b>	<b>51,482</b>

1. Granted under the long-term incentive schemes as disclosed in the tables above.