

SURPLUS DISTRIBUTION

The surplus: where did it come from and where is it going?

What is the amount of the surplus in the Fund?

The surplus as at 1 March 2007 was R1 183.1 million.
This amount will change depending on investment returns.

R1 183.1m

Will the surplus be adjusted for investment returns between 1 March 2007 and the date the payment is made?

Yes, the surplus will be adjusted for investment returns, which may be positive or negative, from 1 March 2007 to 31 October 2008. Late payment interest will be paid from 1 November 2008 to the actual date on which payment is made.

Who is entitled to share in the surplus?

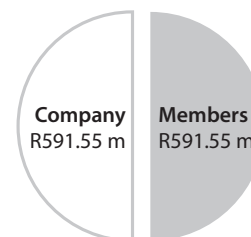
The stakeholders in the surplus are:

- Working members of the Defined Benefit (DB) section present at 1 March 2007
- Members of the DB section who exited the Fund between 1 March 2004 and 28 February 2007
- DB section pensioners
- Members who transferred to the DC section of the Fund effective from 1 August 2006 (some of whom will now be DC section pensioners)
- The Employer

How will the surplus be divided between members and the Employer?

After careful consideration of the financial history of the Fund and the risks borne by the various stakeholders, the Trustees unanimously decided to apportion the surplus 50% to members and 50% to the Employer.

This means that each of these two groups will be allocated R591.55 million surplus as at 1 March 2007. This amount will be adjusted by investment returns up to 31 October 2008.



Will any category of members not receive any share of the surplus?

New employees who joined the DC section of the Fund on or after 1 August 2006, and members who were transferred to the Fund from the De Beers Retirement Fund effective from 1 March 2008, will not receive any surplus allocation. These members are excluded from the surplus distribution because they never belonged to the Defined Benefit section of the Fund. They have only belonged to the Defined Contribution section of the Fund, where the full investment return is immediately added to their Fund Credit on an ongoing basis.

Can working members elect to receive their portion of the surplus apportionment in cash?

In terms of both the Income Tax Act and the Pension Funds Act, the Fund is not allowed to pay working members their allocation of the surplus as a cash benefit. Instead, working members will receive their surplus allocation as an enhancement to their existing Fund benefit.

Why has it taken so long for the surplus allocation to be paid to the various member categories?

The surplus apportionment is based on the date of the latest Fund valuation, i.e. 1 March 2007. The actual valuation is an extremely time consuming and complicated process that requires extensive debate and consultation.

Following the approval of the valuation report by the Board of Trustees, it was then sent to the Financial Services Board (FSB) for their approval

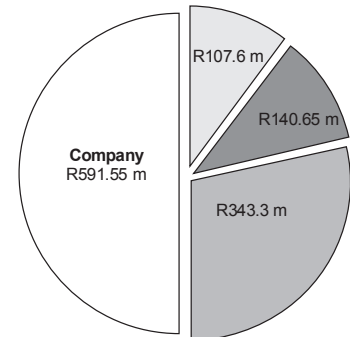
Once the valuation report was approved by the FSB, the Trustees had to agree on the distribution of the surplus between the Employer and the various member categories.

Apportionment of the R591.55 million allocated to the member grouping

How has the R591.55 million been divided between the various member categories?

The financial history of the Fund over the past 3 years was taken into account in the allocation of the R591.55 million to the different member categories. An analysis of the financial history showed that:

- R107.6 million of the surplus arises from higher than expected investment returns on the DB pensioner assets - this amount must clearly be allocated to DB pensioners.
- R140.65 million of the surplus arises from higher than expected investment returns on the assets which were set aside for members who transferred to the DC section from the DB section. Again, this portion of the surplus clearly belongs to these members.
- The balance of R343.3 million has been allocated to members who were working members of the DB section over the period from 1 March 2004 to 28 February 2007 (even though they may have exited from this section during this three-year period).



How will the R343.3 million be allocated to members who belonged to the DB section?

The categories of membership that come into reckoning for the apportionment of the R343.3 million are:

- DB section working members who were still present as at 1 March 2007;
- DB section members who exited the Fund during the 3 years from 1 March 2004 to 28 February 2007; and
- Members of the DB section who transferred to the DC section on 1 August 2006 (after 18 months membership of the DB section) ;

In percentage terms, the Trustees consider it fair that the R343.3 million surplus is allocated in such a way that if DB working members receive an enhancement of 10%, DB exits should receive a 5% enhancement and DC transferees a 4% enhancement.

The motivation for this apportionment is as follows:

- DB working members present at 1 March 2007 had been there for the full three years spanning the valuation period, whereas DB exits had, on average, been present for 18 months. It follows that DB working members should receive an enhancement of double that of DB exits.
- DC transferees already received a minimum enhancement of 24% to their base transfer value when they transferred to the DC section, and this enhancement should be taken into account in the allocation of the surplus to DC members. In addition they were only present in the DB section for part of the valuation period.

The actual allocation of the R343.3 million is as follows:

- 11.4% goes to DB section working members who were present at 1 March 2007;
- 5.7% goes to DB section members who exited the Fund during the period 1 March 2004 to 28 February 2007; and
- 4.85% goes to DB section members who transferred to the DC section of the Fund on 1 August 2006.

The bottom line: what benefit will you receive?

If you were a DB working member present at 1 March 2007 and you are still a working member of the DB section:

If you were a DB working member present at 1 March 2007 and you are no longer a working member:

Including:

- *Members who exited the Fund after 1 March 2007*
- *Beneficiaries of deceased members*
- *Members who retired*
- *Cullinan Diamond Mine Members who transferred to the Petra pension funds*

If you exited the DB section some time between 1 March 2004 and 28 February 2007:

If you retired within the DBPF between 1 March 2004 and 28 February 2007, and elected to take a portion of your retirement benefit as a cash lump sum:

If you transferred to the DC section on 1 August 2006 and you are still a working member:

Please note that you only participate in the surplus of R343.3 million.

You will receive an enhancement of 11.4% to your actuarial reserve value as at 1 March 2007. This amount will be credited to an account in your name and will grow with investment returns in the future (which may be positive or negative) and will ultimately be used to enhance your retirement benefit or be paid to you as part of a withdrawal benefit should you leave the Fund. This means that the amount will be treated in exactly the same way as an "additional voluntary contribution" (AVC), and in fact the benefit will reside under the AVC Rules of the Fund. You will receive a letter from the Fund confirming the balance of the account in your name

Please note that you only participate in the surplus of R343.3 million.

You will receive an enhancement of 11.4% to your actuarial reserve value as at 1 March 2007. This amount will be paid to you in the form of a cash payout (subject to tax) or there will be an option to preserve this amount in an approved Fund (tax-free). The Fund will use the services of a specialised section of Alexander Forbes Financial Services to make this payment to you. If you fall in this category, Alexander Forbes Financial Services will contact you regarding the confirmation of your details and the payment of this benefit.

Where members elected an annuity within the DBPF, this will be paid as a bonus and the amount will be reflected on the November 2008 payslip. Where the member elected to purchase an annuity from an outside insurer, the Fund will use the services of a specialised section of Alexander Forbes Financial Services to make this payment to you. If you fall in this category, Alexander Forbes Financial Services will contact you regarding the confirmation of your details and the payment of this benefit.

Members employed at Cullinan Diamond Mine will have their surplus apportionment transferred to their new fund via a separate application to the Financial Services Board. Members will receive a letter from the Fund confirming this value.

Please note that you only participate in the surplus of R343.3 million.

You are regarded as a former member of the Fund and you will receive an enhancement of 5.7% to your exit benefit. You will **not** receive any surplus allocation on any money that may have been paid into the Fund by the employer to enhance your exit benefit. The enhancement will be paid to you in cash and is subject to tax, unless you elect to transfer it to an existing pension or retirement annuity fund.

The Fund will use the services of a specialised section of Alexander Forbes Financial Services to make this payment to you. If you fall in this category, Alexander Forbes Financial Services will contact you regarding the confirmation of your details and the payment of this benefit.

Please note that you only participate in the surplus of R343.3 million.

Your surplus apportionment in respect of this amount will be paid to you in the form of a taxable bonus. You will receive notification of this amount via your November pension payslip.

You will receive a pro rata share of the R140.65 million (*only DC transferees participate in this surplus*) **as well as** a share of the R343.3 million. The benefit will be allocated as follows:

- Your share of the R140.65 million translates into an enhancement of 3.25% on the sum of your base transfer value **plus** the general

If you transferred to the DC section on 1 August 2006 and you are still a working member:
(Continued)

If you transferred to the DC section on 1 August 2006 and you are no longer a working member:

Including:

- *Members who exited the Fund after 1 March 2007*
- *Beneficiaries of deceased members*
- *Members who retired*
- *Members who transferred to the Petra pension funds*

If you were a DB pensioner present as at 1 March 2007 and you are still a DB pensioner:

If you were a deferred or paid-up pensioner present as at 1 March 2007 and you are still a deferred or paid-up pensioner:

Other stakeholders:

Including:

- *Beneficiaries of deceased pensioners*
- *Terminated child and student pensioners*

enhancement bearing in mind that the general enhancement equated to a 24% enhancement on your base transfer value. (It would be unfair to base the surplus allocation on an amount that includes the retirement reserve, because not all DC transferees received a retirement reserve allocation.)

- Your share of the R343.3 million translates into an enhancement of 4.55% on your base transfer value **plus** the general enhancement.

The above suggests that you will receive a total enhancement of 7.8%. However, due to the merger of the DB section and DC section pensioner pools*, a "premium" is payable to the DB pensioner pool, which reduces the net apportionment for this category to 4.85% of base transfer value **plus** the general enhancement. You will receive a letter from the Fund indicating the amount credited to your Fund Credit.

*Please see the section on the next page dealing with the merger of the DB and DC section pensioner pools.

You will receive a pro rata share of the R140.65 million (*only DC transferees participate in this surplus*) **as well as** a share of the R343.3 million.

If you **were not** a DBPF pensioner as at 1 July 2008, you will receive an enhancement of 4.85% to the sum of your base transfer value **plus** the general enhancement as at 1 March 2007. This amount will be paid to you (or your dependants/estate) in the form of a cash payout (subject to tax). The Fund will use the services of a specialised section of Alexander Forbes Financial Services to make this payment to you. If you fall in this category, Alexander Forbes Financial Services will contact you regarding the confirmation of your details and the payment of this benefit.

If you **were** a DC section pensioner as at 1 July 2008, you will already have received a portion of the surplus allocation in the pension increase that you received. The balance of your surplus apportionment will be paid to you in the form of a cash payout (subject to tax). Where members elected an annuity within the DBPF, this will be paid as a bonus and the amount will be reflected on the November 2008 payslip. Where the member elected to purchase an annuity from an outside insurer, the Fund will use the services of a specialised section of Alexander Forbes Financial Services to make this payment to you. If you fall in this category, Alexander Forbes Financial Services will contact you regarding the confirmation of your details and the payment of this benefit.

Members employed at Cullinan Diamond Mine will have their surplus apportionment transferred to their new fund via a separate section 14 transfer to the new Fund. Members will receive a letter from the Fund confirming this value.

You will receive a special pension increase of 6.5% as at 1 November 2008. You will receive notification of your increase via your November pension payslip.

You will receive an enhancement of 6.5% of your actuarial reserve value as at 1 March 2007. This will be allocated to you via an increase in your annual base pension.

You will receive an individualised letter advising you of your increased annual base pension from the Fund.

These stakeholders will receive an enhancement of 6.5% of the actuarial reserve value as at 1 March 2007. This amount will be paid in the form of a cash payout (subject to tax).

The Fund will use the services of a specialised section of Alexander Forbes Financial Services to make this payment to you. If you fall in this category, Alexander Forbes Financial Services will contact you regarding the confirmation of your details and the payment of this benefit.

Merger of the DB and DC pensioner pools

Why have the DB and DC pensioner pools been merged?

After careful consideration, the Trustees decided to merge the two pensioner pools, subject to the payment of a R128 million “premium” by the DC section to the DB pensioner pool. As noted above, this premium will be funded out of the surplus apportionment due to DC section members.

The reasons for the merger are as follows:

- The Employer was agreeable that the full balance in the pensioner account (which includes a healthy margin of safety to allow the Fund to target inflation-related increases into the future aligned to its policy), could be applied for the benefit of pensioners provided that the two pools were merged.

This is of considerable value to pensioners, because it means that in future, *should* the Fund be able to afford pension increases in excess of inflation (which has the same effect as a surplus apportionment) as a result of very good investment returns, the Employer will not share in this surplus. To put it differently, the Employer has given up its right to claim any surplus that may arise from the pensioner pool and pensioners will be the sole beneficiaries of any such surplus.

- The pensioner pool should be able to follow a more long-term investment strategy, because it would be assured of a regular flow of new entrants. If the DB pensioner pool was kept separate, it would gradually decline, because there would be no new retirees. The effect of a closed pool such as this is that, over time, the Fund would need to follow a more conservative investment strategy.

By being able to adopt a longer investment horizon, the pensioner pool has a better prospect of earning higher returns over the long term (although this cannot be guaranteed). If higher returns are indeed earned, this will translate into better pension increases.

- The Fund will be in a position to grant all pensioners the same increase, which should prevent the confusion about different increases granted to DB and DC section pensioners.

Given the sound financial position of the DB pensioner pool, are DC members not being unfairly advantaged?

Understandably, DB section pensioners may be concerned that by letting the DC pensioners join their pool, the financial strength of the DB section pensioner pool will be eroded. This would indeed be unfair, and for this reason the Trustees require the DC section to pay a “premium” of R128 million for the right to join the DB pensioner pool.

The two pools will merge on 1 November 2008. At this date, the DC pensioner pool is expected to transfer assets and liabilities of some R260 million to the DB pensioner pool. So, initially the merged pool will get extra assets and liabilities of R260 million. In addition to this, the DB pensioner pool will be strengthened by the “premium” of R128 million referred to above, plus investment returns from 1 March 2007.

Please note that the R128 million “premium” is also in respect of future DC members who may elect to receive a pension from the merged pool on retirement.

How does the R128 million premium affect the DC transferees’ surplus allocation?

The effect of the R128 million “premium” is to reduce the allocation to DC transferees by 2.95%. As highlighted above, the total enhancement from the surplus amounts to 7.8% of the sum of your base transfer value plus the general enhancement. The 2.95% premium must be deducted from this 7.8%, and so the net enhancement to DC members is 4.85% of the sum of their base transfer value plus the general enhancement.

Rand amounts

Although the percentages described above are of most relevance to you, the Rand amount of the allocation is also shown in the table below for the sake of completeness. Please note that the values indicated below are as at the valuation date of 1 March 2007. These values will be adjusted by the fund returns earned on the assets backing the surplus.

Category	Total member interest on which the allocation is based (in R'm)	R'm allocation	% of member interest
DB working members in service 28 February 2007	202.56	23.14	11.4%
DB exits – excluding DB retirees with a fund pension other than that part of their benefit they received as a lump sum commutation, on which they will receive the 5.7% enhancement	992.31	56.86	5.7%
Net allocation		80.00	
DC transferees –	4 317.08		
• Part allocation of R343.3 million		197.30	4.55%
• Excess ring-fenced assets		140.65	
• Premium to pensioners		(128.00)	
Net allocation		209.95	4.85%
DB pensioners –	4 641.13		
• Excess NPA		107.60	
• Premium DC transferees		128.00	
• Transfer in respect of DB retirees with Fund pension		66.00	
Net allocation		301.60	6.5%
Grand total allocation to members		591.55	
Allocation to the Employer		591.55	