Discovery

Discovery Annual Report 2009

Contents

2009 Group highlights

Operating profit

+32% to R1.7 billion

New business API excluding Destiny Health

+20% to R5 775 million

Diluted embedded value per share

+12% to R35.83

Total dividend for the year

+31% to 58.5 cents

We have faced difficult economic conditions and a complex environment in 2009. But Discovery has never lost sight of our clients' needs and the things that matter most to them – their families, their health and their future. Our focus is on people, because we know our products and services touch some of the most important areas of their lives.

Group at a glance

Group operating structure

Discovery operates in insurance and wellness markets in South Africa, the United Kingdom and the United States of America. The company was established in South Africa in 1992 as a specialist risk manager in the private healthcare market. Today, it is a fully integrated financial services institution spanning health assurance, life assurance, financial services and wellness.

Discovery Health

100%

South Africa's leading manager of private healthcare funds

Established in 1992

Covers over 2 million lives

Discovery Vitality

100%

Science-based wellness programme, competitive differentiator and value creator

Established in 1997

Covers 1.4 million lives

Discovery Life

100%

South Africa's fastest growing major life assurer and leader in risk protection

Established in 2000

Covers 550 000 lives

Discovery Health and Discovery Vitality

New business annualised premium income

R million	
2009	**3 191**
2008	2 834
2007	2 677
2006	2 612
2005	2 869
2004	2 184

Contribution to group new business

54%

Discovery Life

New business annualised premium income

R million	
2009	**1 519**
2008	1 201
2007	971
2006	789
2005	629
2004	535

Contribution to group new business

26%

New business annualised premium income ("new business API") measures the annualised premiums generated by clients who have purchased Discovery products over the past financial year.

Discovery's core purpose is to make people healthier and to enhance and protect their lives

Discovery's methodology is to grow organically through innovation that meets consumers' needs. Our product offerings engage consumers in managing their health and their financial wellbeing. They integrate seamlessly across our different businesses to create efficiency and enhance benefits, contributing to the profitability and sustainability of our business.

Discovery Invest

100%

Provider of innovative long-term savings solutions

Established in 2007

Covers 13 000 policyholders

PRU HEALTH

50%

UK-based health insurer leading change in the UK private medical insurance market

Established in 2004

Covers over 200 000 lives

Joint venture in the United Kingdom with Prudential plc

PRU PROTECT It pays to be healthy

50%

UK-based life assurer. Provider of pure-risk protection products

Established in 2007

Joint venture in the United Kingdom with Prudential plc

vitality

99%

Discovery has completed the wind-down of Destiny Health with the Vitality programme retaining some presence in the US market

Established in 2000

Discovery Invest

New business annualised premium income

R million	
2009	**401**
2008	206

Contribution to group new business

7%

PruHealth

New business annualised premium income

R million	
2009	**559**
2008	533
2007	418
2006	282
2005	35

Contribution to group new business

10%

PruProtect

New business annualised premium income

R million	
2009	**105**
2008	25

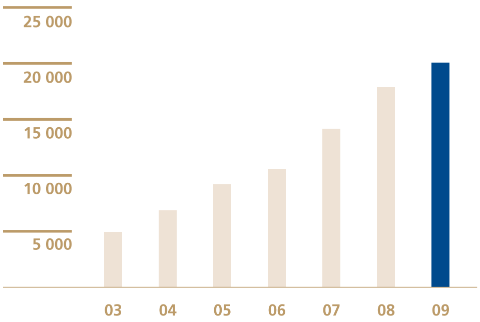
Contribution to group new business

2%

Group financial highlights

The results

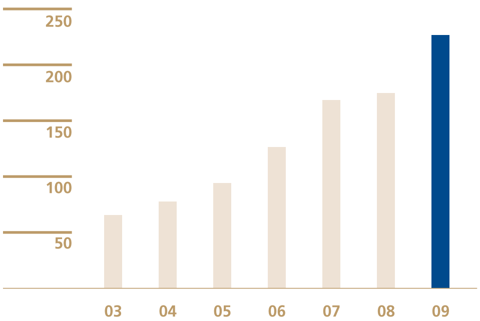
Embedded value (R million)



R million	
2009	**20 040**
2008	17 881
2007	14 166
2006	10 578
2005	9 173
2004	6 832
2003	4 928

Embedded value is an actuarial calculation of the current value of Discovery as it exists today. An embedded value calculation assumes no growth in the current business. The continual growth of the embedded value shows continuous shareholders' value created by Discovery.

Diluted headline earnings per share before abnormal items (cents)

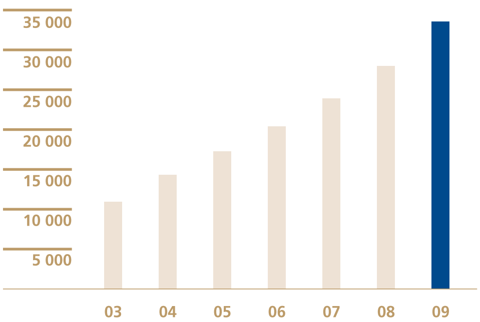


Cents	
2009	**226.5**
2008	174.7
2007	168.4
2006	126.4
2005	94.2
2004	77.4
2003	65.7

Diluted headline earnings per share before abnormal items measures the sustainable earnings attributable to ordinary shareholders.

Value creators

Gross inflows under management (R million)

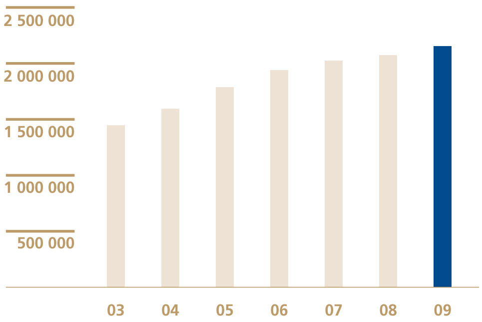


R million	
2009	**33 591**
2008	28 006
2007	23 911
2006	20 427
2005	17 295
2004	14 345
2003	10 946

Gross inflows under management measures the total funds managed and received by Discovery and is an accurate measure of the continual growth of Discovery.

Value creators (continued)

Discovery Health clients

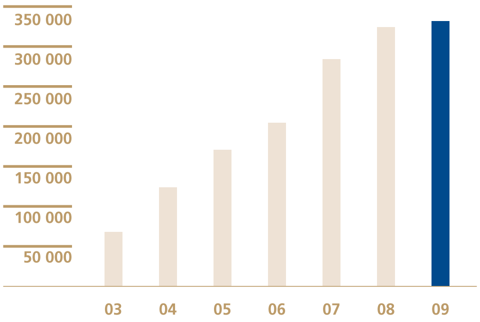


Clients

2009	**2 151 544**
2008	2 074 876
2007	2 025 650
2006	1 939 339
2005	1 788 566
2004	1 593 975
2003	1 446 371

This is the number of lives administered by Discovery Health at 30 June. This large and diverse membership base reduces the reliance on any one member or employer who purchases Discovery products.

Discovery Life individual policyholders

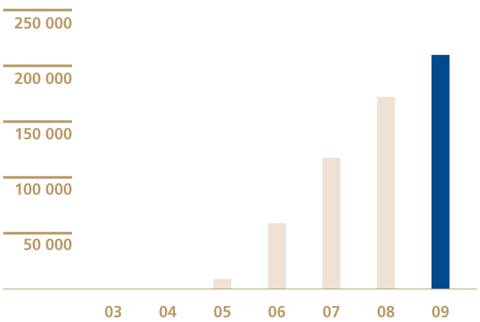


Clients

2009	**331 572**
2008	324 064
2007	284 162
2006	204 891
2005	170 642
2004	123 977
2003	67 998

This is the number of principal lives on risk at 30 June. As premiums collected from individual policyholders are recurring, each policyholder adds to Discovery Life's value.

PruHealth clients



Clients

2009	**209 955**
2008	172 203
2007	117 535
2006	58 912
2005	8 426

This is the number of lives administered by PruHealth at 30 June. Each life adds to PruHealth's value.

Discovery Health has built a set of unique assets, placing it in a position of strength and leadership in the industry. This includes its risk management expertise, provider networks, payment arrangements, managed care interventions and high-touch service environment. We are committed to putting these assets to work to help build a better healthcare system for our members, and for all South Africans.

Discovery Health covers over

2 million lives and manages 13 medical schemes

Discovery Health's KeyCare range is the

fastest-growing range in the lower-income market

The Discovery Health Medical Scheme has close to

R6 billion in reserves

The Discovery Health Medical Scheme has an

AA+ credit rating

Discovery Health's service and operation processes are

ISO 9001 compliant

Discovery Health

Meet the Discovery board of directors

1. Neville Koopowitz (45)
BCom, CFP
Executive director

Neville joined Discovery as Marketing Director in 1996, playing a defining role in the evolution of the Discovery brand. Today he is the chief executive officer of Discovery Health.

2. Les Owen (60)
BSc (Hons), FIA, FIAA, FPMI
Non-executive director

Les, a qualified actuary, has held top insurance positions in the UK and Australia. He brings to the Discovery board more than 30 years' experience of international insurance markets.

3. Herschel Mayers (49)
BSc (Hons), FIA, FASSA
Executive director

Herschel held senior positions at Liberty Life before joining Discovery to co-found Discovery Life in 2000. He is the chief executive officer of Discovery Life and Discovery Invest.

4. Dr Brian Brink (57)
BSc (Med), MBBCh, DA (SA)
Non-executive director

Brian is a respected thought-leader in the health arena, advising companies on HIV and AIDS management in the workplace. He is the chief medical officer at Anglo American.

5. Peter Cooper (53)
BCom (Hons), HDip Tax, CA (SA)
Non-executive director

Peter is the chief operating officer of RMB Holdings and a director of OUTsurance and RMB Structured Finance. A chartered accountant by training, he has specialist expertise in corporate and structured finance.

6. Barry Swartzberg (44)
BSc, FFA, ASA, FASSA, CFP
Executive director

Barry is one of Discovery's founders and contributed to the evolution of the group's marketing approach, risk management capability and operations. He is currently group executive director, responsible for international operations.

7. Tania Slabbert (42)
BA, MBA
Non-executive director

Tania is the chief executive officer of WDB Investment Holdings, and uses her investment expertise to facilitate the socio-political and economic development of women in South Africa.

8. Sindi Zilwa (42)
BCompt Hons, CTA, CA (SA), Advanced Taxation Certificate, CFP, Advanced Diploma in Financial Planning, Diploma in Advanced Banking
Non-executive director

Sindi is the chief executive officer of Nkonki, a chartered accountancy firm. She is a thought-leader in the areas of business, entrepreneurship and transformation.

9. John Robertson (61)
BCom, CTA, CA (SA), HDip Tax
Executive director

After a career in IT consulting, John joined Discovery at its inception to develop its IT strategy, systems and finance infrastructure. He is group chief information officer; also responsible for group risk and compliance.

10. Alan Pollard (40)
BSc (Hons), FIA, FSSA
Executive director

Alan, an actuary, joined Discovery in 1994. He headed up research and product development at Discovery Health before taking on his current role as chief executive officer of Discovery Vitality.

11. Steven Epstein (66)
JD, Columbia University Law School, BA, Tufts University
Non-executive director

Steven is the founder and senior partner of one of the largest US-based health law firms and a champion of the concept that healthcare organisations need specialist legal representation.

12. Dr Vincent Maphai (57)
BA, BA (Hons), M Phil, D Phil, Advanced Management Programme (Harvard)
Non-executive director

Vincent was formerly BHP Billiton's Chairman, a research director at the HSRC and taught at universities locally and abroad. He is executive director of Corporate Affairs and Transformation at SAB Miller.

13. Richard Farber (38)
BCom (Hons), CA (SA), ACMA
Executive director

Richard was the group accountant at Investec Bank before joining Discovery in 2003 as chief financial officer. He joined the Discovery Board as financial director on 1 July 2009.

14. Sonja Sebotsa (37)
LLB (Hons), MA
Non-executive director

Sonja is the founder and Principal Partner in Identity Partners, an investment firm, and has extensive expertise in corporate advisory work. She was previously a vice president in Deutsche Bank's investment banking division.

15. Monty Hilkowitz (69)
FIA
Non-executive chairman

Monty's career has spanned investment management, financial services and insurance interests in several countries. He is currently self-employed and holds directorships with two leading financial services companies in Ireland.

16. Adrian Gore (45)
BSc (Hons), FFA, ASA, MAAA, FASSA
Group chief executive officer

Adrian founded Discovery in 1992 after conceiving the idea of a specialist risk management company offering clients innovation, flexibility, value and service. He is the group chief executive officer.

Detailed information on directors' CVs can be found on page 30 under Discovery Holdings Directorate.

Group chief executive officer's report

Sound performances and strong growth through client-centric innovation, financial strength and distribution excellence

Discovery Holdings

Adrian Gore
Group chief executive officer, Discovery

"Despite the difficult economic conditions and the complexity of the markets in which Discovery operates, the Group's performance exceeded expectation. The year featured sound performances across both established and emerging businesses. Discovery's methodology is to grow organically by creating innovative products and services that meet consumers' needs. This approach has proved particularly apt in adverse market conditions, where consumers have sought refuge in the quality, stability and financial strength of Discovery's offerings."

Operating profit

+32% to R1.7 billion

Operating profit from established businesses

+21% to R2.1 billion

New business API excluding Destiny

+20% to R5 775 million

Diluted embedded value per share

+12% to R35.83

Headline earnings

+33% to R1 238 million

Total dividend for the year

+31% to 58.5 cents

The year's key themes

Challenges and change

When I last reported to you, South Africa had not yet experienced the full impact of the downturn in global economic markets. A mood of negativity and pessimism prevailed at the time with people feeling concerned about looming political change and the potential of an economic recession.

A year later, the world's worst economic recession for many decades is a tough reality that affects the financial security of millions of South Africans. Nonetheless, the mood in the country seems to have altered over the past year from one of fear and uncertainty to a far more hopeful one, reaffirming our nation's ability to navigate complexity and overcome challenges. This mood of optimism resonates with Discovery and our enduring belief that, no matter the challenges, there are always solutions.

Leadership and opportunity

In last year's report, we expressed the view that Discovery's values of prudence and innovation had created a position of financial strength and quality that would allow it to capitalise on the opportunities inherent in the environment.

We also anticipated that the changing environment would provide an opportunity to play a leadership role, to engage with the various stakeholders and apply our assets to help address areas of concern. Given the important debates happening particularly in the realm of healthcare policy at present, Discovery remains firmly committed to doing so.

Some of these debates are playing out in parallel in South Africa and the United States. Healthcare reform has been a central issue for the governments of both new incumbents, President Obama and President Zuma, who must grapple with the challenge of broadening access to care.

The comparison must carry the caveat that the dynamics of these two markets are very different. In South Africa, the lack of resources is extreme in comparison to the relatively well-resourced USA and the distribution of resources across different population groups is skewed to a far greater degree in South Africa. It is well documented that South Africa has one of the largest divides between rich and poor in the world. At present, less than 20% of the population consumes 80% of the healthcare resources in our country.

The USA is the world's largest consumer of healthcare and its per capita expenditure on healthcare is six times that of South Africa's private healthcare sector and six hundred times that of our public sector.

However, parallels do exist and serve to illustrate that South Africa's healthcare dilemma is one all economies face – that demand for healthcare is unlimited and ever increasing and there simply are not enough resources to adequately meet it.

In this context, there is some uncertainty and concern about the possible consequences of the implementation of a National Health Insurance system in South Africa. Many stakeholders have raised questions around the continued relevance and sustainability of private healthcare in a new centralised tax-funded insurance system. Discovery, however, is confident that private healthcare can and must play a legitimate role in our country's future healthcare system. All the documents and statements made by the government and ruling party to date have affirmed that medical schemes will have a place within the system. At the time of writing, the release of a formal policy proposal for stakeholder discussion is imminent.

Discovery is in agreement with the objectives of the policy proposals and supportive of the need to address past inequalities and extend access to care. We believe that private healthcare in South Africa is an asset and a testament to what our nation is capable of achieving. Any solution must take account of this asset. As a leading role-player in private healthcare, we are closely involved in the consultation process. We have committed our expertise and our resources to Government to assist in this regard, and will do everything we can to support the process.

Resilience and growth

We have been fortunate during the period under review to see Discovery's ethos of innovation and prudence buttress the Group effectively against the negative operating environment. In difficult economic conditions, consumer behaviour is often driven by caution, a flight to quality and a pursuit of value for money – conditions ideally suited to Discovery's values and business methodology.

Discovery's rapid growth has stemmed from widespread demand for its unique and consumer-centric product and service offerings. During the period under review, across Discovery's businesses, we launched benefits that further engage consumers in managing their health to deliver cost-efficiency, certainty and value. Our strategy of innovation and integration, which uses the Vitality wellness programme and the DiscoveryCard to link together different offerings, facilitated the introduction of several recession-appropriate innovations in the period.

The Discovery Vitality HealthyFood™ benefit, for example, promotes healthy nutrition while providing savings of up to 25% at Pick n

Group chief executive officer's report (continued)

Pay on 6 000 nutritionally essential food items. The Discovery Health Delta Plans, introduced in January 2009, have generated contribution savings of 20%. The simultaneous introduction of income bands on Discovery Health's lower-income KeyCare Plans has provided savings of as much as 30% for families within the lowest income bracket. Discovery Life's Cover Integrator enables policyholders to purchase additional life cover at a saving of approximately 50%, and Discovery Invest's Upfront Investment Integrator provides a boost of up to 26% on investors' lump sum contribution to their endowment policy.

Strong new business growth, high persistency levels and recent awards confirm consumers' approval of the approach. Financial advisers and corporate clients chose Discovery Life and Discovery Health as the top performers in their respective categories of the 2009 Sunday Times Top Brands and the 2009 Financial Intermediaries Association Annual Awards.

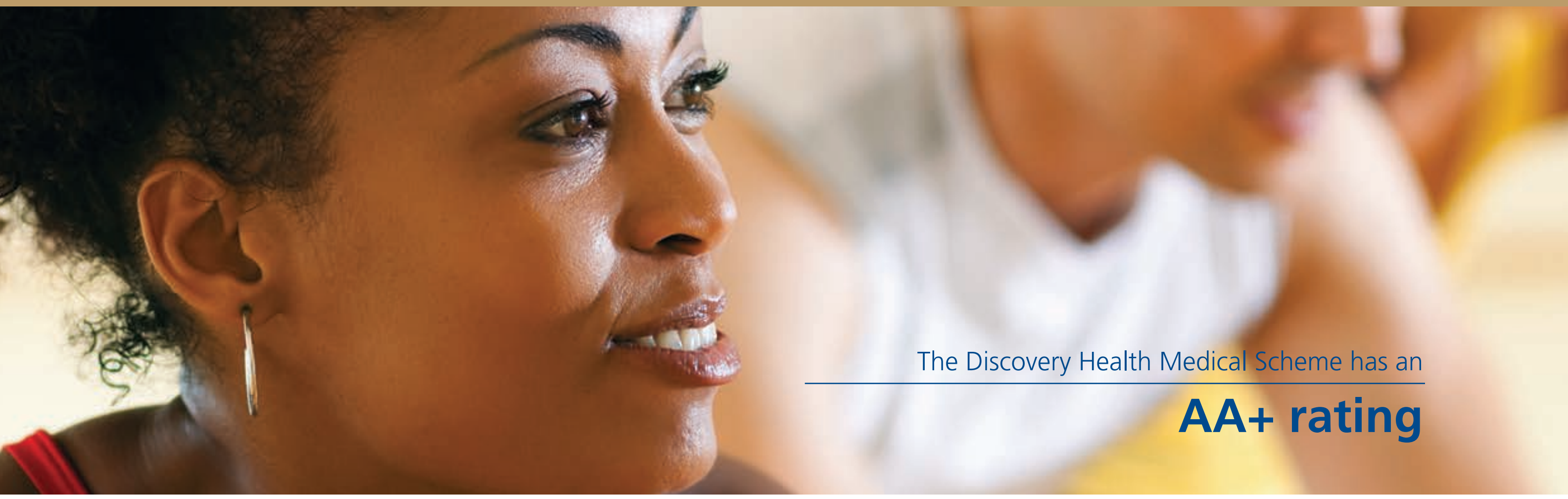
Going into 2010, Discovery is building on these innovations. At the time of writing, Discovery Health had announced the expansion of its Delta hospital network to encompass a broader range of plans, as well as measures to close gaps in out-of-hospital cover for GP visits and critical pathology tests. Discovery Vitality also announced a benefit enhancement that will enable Discovery Health members who belong to Vitality and have a DiscoveryCard, to use their HealthyFood™ cash back to cover out-of-pocket health expenses. Further innovations from Discovery Life and Discovery Invest were introduced to the market during October.

Discovery's distribution capability has contributed to its resilience and success. Discovery believes strongly in the importance of top quality financial advice for our clients, given the complexity of the environment and product categories within which we operate. Over the year, we have seen the breadth of new business support of Discovery grow among independent financial advisers on the back of a substantial and efficient broker distribution network. We have also focused on building our recently-established tied agency force, which has grown significantly and is successfully attracting and retaining top sales talent through our innovative franchise-based distribution structure.

Discovery has coupled innovation and distribution excellence with a cautious financial approach that stems from its origins as a specialist risk manager.

In the case of Discovery Health, this has manifested in the careful financial management of the medical scheme on behalf of members during the period, allowing it to accrue reserves of close to R6 billion – exceeding the legal solvency requirement of reserves equal to 25% of gross contributions received. In Discovery Life's case, the life assurer's capital strength provides cover of eight times the capital adequacy requirement. In the UK, PruHealth covers its capital adequacy requirements twice over and, in PruProtect's instance, a newly revised capital structure allows us to fund acquisition costs by monetising the negative reserve through Prudential's balance sheet.

"Discovery has consistently applied an ethos of innovation to ensuring our products are sustainable and generate superior performance for our clients and stakeholders."



Owing to this prudent approach, Discovery has no debt and no gearing and, although our emerging business ventures still require investments, the capital strength of our established businesses offsets this.

Our strong capital position, with cash of over R1.7 billion, facilitates ongoing investment in research and development, fuelling further customer-centric innovation and strong prospects for growth across the Group going forward.

Our performance in 2009

Discovery Health

Discovery Health's role is to provide affordable access to quality healthcare on a sustainable basis. Discovery Health's size and scale, the complexity of its operating environment and its impact on society requires that it perform for all stakeholders consistently and without compromise. If it is to remain sustainable and relevant, it must succeed in its objective of building a better healthcare system for the medical scheme members under its management.

Discovery Health's performance in the year under review exceeded our expectations, both financially and in its delivery to the scheme's members.

Financial performance

New business grew by 11% to R3 039 million (2008: R2 731 million) and the Discovery Health Medical Scheme added over 45 000 principal lives to the total of 2.1 million lives covered. Operating profits grew by 15% to R1 028 million (2008: R891 million). Lapses remained relatively flat at just over 4%, in spite of the increasing financial pressures that consumers have faced in the period.

Performance for our members

Members belonging to the Discovery Health Medical Scheme have peace of mind that they belong to a soundly managed medical scheme that is financially robust and sustainable, offers comprehensive coverage and delivers value for money.

Financial strength and sustainability

Over the 12 months to June 2009, the scheme's reserves are estimated to have grown by R700 million and are on track to reach the R6 billion mark by the end of the calendar year. During the period, industry rating-agency, Global Credit Ratings, upgraded the Discovery Health Medical Scheme's credit rating to an AA+. It based this on the Scheme's size, cash flow, operational strength, past performance, management expertise and reserves. This reaffirmed the Discovery Health Medical Scheme's position as the most financially stable in the South African open scheme market.

In fact, the Discovery Health Medical Scheme is the only scheme in the industry that has managed to grow its membership base and build its reserves – or statutory solvency level – simultaneously. Medical schemes are required to maintain reserves of over 25% of gross contributions. When schemes grow, so do their solvency requirements. Therefore, growing schemes tend to have lower solvency levels and declining schemes often have growing reserves. The Discovery Health Medical Scheme, however, has managed to build its reserves to over 25% of gross contribution income while experiencing continued membership growth.

Breadth and quality of cover

The scale of Discovery Health's network arrangements has expanded substantially in the period, enabling more members to access care without co-payments. Discovery Health's GP Network now covers nearly 80% of members and payment arrangements with specialists grew to 85%.

Group chief executive officer's report (continued)

Discovery Health

This pleasing result flows from an appreciation, on Discovery Health's part, for the pivotal role that health professionals play within the system. Discovery Health remains committed to working collaboratively with the medical profession and other healthcare providers to build a cost-effective healthcare system and broaden access without compromising the quality of care.

The introduction in 2009 of the Delta hospital network technology and enhancements to the KeyCare Networks has contributed powerfully to affordability and enhanced access.

In 2009, the Delta option allowed members on the Saver and Core plans to access cover at a premium saving of 20% on average. We are further extending this in 2010, with the addition of the Delta option on the Comprehensive plans.

During the period, we adjusted KeyCare contribution rates on salary bands, enabling the lowest income earners to benefit from the lowest contribution rates. The impact has been dramatic and 65% of new KeyCare members are now on plans with the lower premium rates. Over 75 000 new lives have joined the KeyCare Plans since January 2009. This means that we are reaching a far broader market and providing access to people who previously have not enjoyed private healthcare cover. With 240 000 members, the KeyCare membership base is equivalent to the overall base of the third largest medical scheme in the market and is the fastest growing lower-income plan in the industry.

Affordability and value for money

In terms of affordability, Discovery Health has contained its contribution increases within its long established "corridor of certainty" of consumer price inflation plus 3% or less. Going into 2010, the company has announced a contribution increase of 9.8%, substantially lower than the industry average and consistent with Discovery Health's track record of sustainable contribution increases.

Discovery Health has continued to reduce its administration fees in real terms, which have fallen from 12% of contributions in 2005 to under 10.5% in 2009. An "exit price" analysis of the average premium of the various Discovery Health Plans against the average premium for the 14 next largest medical schemes shows that the Discovery Health Plans are well priced in all segments of the market.

However, the value of the Discovery Health benefit and service offering is, in our view, superior and has improved over time.

The benefits paid per member have grown at 10% annually. One of the key metrics we use to measure our performance for our members is the cover ratio – a measure of members' cover once they have engaged with the healthcare system. In 2009, Discovery Health has covered 80% of all members' day-to-day medical claims (for high frequency, low severity and out-of-hospital healthcare expenses), 92% of all chronic illness benefit claims and 95% of all hospital claims, including specialist and related accounts.

To place the scale of its delivery to members in context, in the past year Discovery Health:

- Paid 32 million claims
- Funded the birth of 38 000 babies
- Paid chronic medication claims for 225 000 members
- Paid for the cancer treatment of 19 000 cancer patients every month.

Service delivery

Ultimately, however, our members are the judges of the quality of our benefits and services. We therefore measure our delivery to them meticulously and engage with them to understand their needs and concerns.

Discovery Health sends out an average 30 000 email-based surveys to members every month to test their satisfaction with our service. We receive back an average 12 000 responses monthly, with members rating the standard of service at an average 8.7 out 10.

Independent industry surveys also consistently rate Discovery Health as the top service performer. For example, in the annual Private Health Tracker survey, released in March 2009, members and health professionals rated the overall quality of Discovery Health's service as the best in the industry.

In the period, Discovery Health obtained ISO 9001 certification of its service processes confirming that its service operations conform to the highest international standards of quality and sustainability.

Meeting the demands of a complex environment

While Discovery Health and the schemes under management are performing well against all the key metrics we set, we understand that statistics by their nature cannot accurately reflect the individual experience and expectations of every member with whom we engage. Discovery Health deals with people's health and their finances, areas of tremendous importance and concern for individuals. We are determined to hone in on the individual needs of the people in our care and make a difference in their lives, while acting in the best interests of our membership base as a whole.

We are therefore investing significantly in enhancing even further the structures we have built to ensure members have access to the most comprehensive care and that they receive value for money.

Closing gaps in cover

An area of concern for many medical scheme members in this environment is the gaps in their cover for out-of-hospital medical expenses.

Modern benefit design philosophy ensures that when people are sick – in hospital or chronically ill – they have the most comprehensive cover possible, with the flexibility to select their level of day-to-day cover. Given the high cost of healthcare and the limited resources available to fund it, this could result in gaps in coverage. However, these gaps are predictable and also ensure the correct balance to maintain the sustainability of the scheme. The alternative is one we are not prepared to consider – to ration care by applying limits and caps on hospital care and care for serious chronic conditions, leaving consumers financially exposed when they most need cover.

Having said that, we understand the financial pressure that consumers face and that it is our role to ensure they have the most comprehensive coverage possible. We are therefore working hard to limit gaps in cover and have recently announced enhancements to our benefit design to help address members' concerns in 2010. The new Insured Network Benefit will provide full cover for GP consultations and pathology in the Discovery Health networks on all plans offering out-of-hospital cover – the Executive, Comprehensive, Priority and Saver Plans. The Insured Network Benefit provides extended cover for GP consultations and pathology tests for members who have exhausted the available funds in their Medical Savings Account.

The GP plays a pivotal role in the healthcare system, as the primary entry point and coordinator of care. Discovery Health's GP Network supports and leverages the role of the GP as gatekeeper of the healthcare system and extends to more than 3 500 practices nationwide. Discovery Health has consulted extensively with the South African Medical Association and the leadership of various independent practitioner associations to structure the Insured Network Benefit for GP consultations and pathology benefits.

Providing funding for specialised treatments and new technologies

One of the most gratifying aspects of working within the healthcare sector is seeing the tremendous clinical and technological advances that are being made. It is Discovery Health's privilege to witness firsthand how these advances change and, often, save people's lives. In the case of cancer, for example, the probability of a patient surviving cancer has increased significantly in just a few short years.

Unfortunately, these advances come at a price, as they often entail sophisticated new technologies and procedures, which adds significantly to the cost of care. The cost for medical schemes of covering cancer has nearly doubled in the past four years as a result. We have been working for many years now to balance these two dynamics so that our members have access to the latest technologies and top medical care, but in a way that is cost-effective and sustainable for the medical scheme and its membership base as a whole.

Our use, in recent years, of tiered benefit structures and protocols has allowed many members to benefit from new and expensive treatments. However, the approach is a complex one and may leave members with a great deal of uncertainty around the exact extent of their cover for these treatments and procedures. We have expanded and simplified the approach going into 2010.

For oncology, members on all plans (except KeyCare) will have cover in full for oncology up to a plan-dependent threshold of either R400 000 or R200 000 per year. Once this threshold amount is reached, Discovery Health will cover 80% of the cost of the treatment. In terms of other specialised medicines and procedures, a sliding scale of benefits will apply with cover up to R200 000 for the year, thereafter a variable co-payment will apply (this cover is not available on KeyCare). Furthermore, we have introduced the Overseas Treatment Benefit, which will cover certain treatments not available in South Africa, overseas up to a specific rand amount.

Helping consumers navigate the healthcare landscape and engage in managing their health

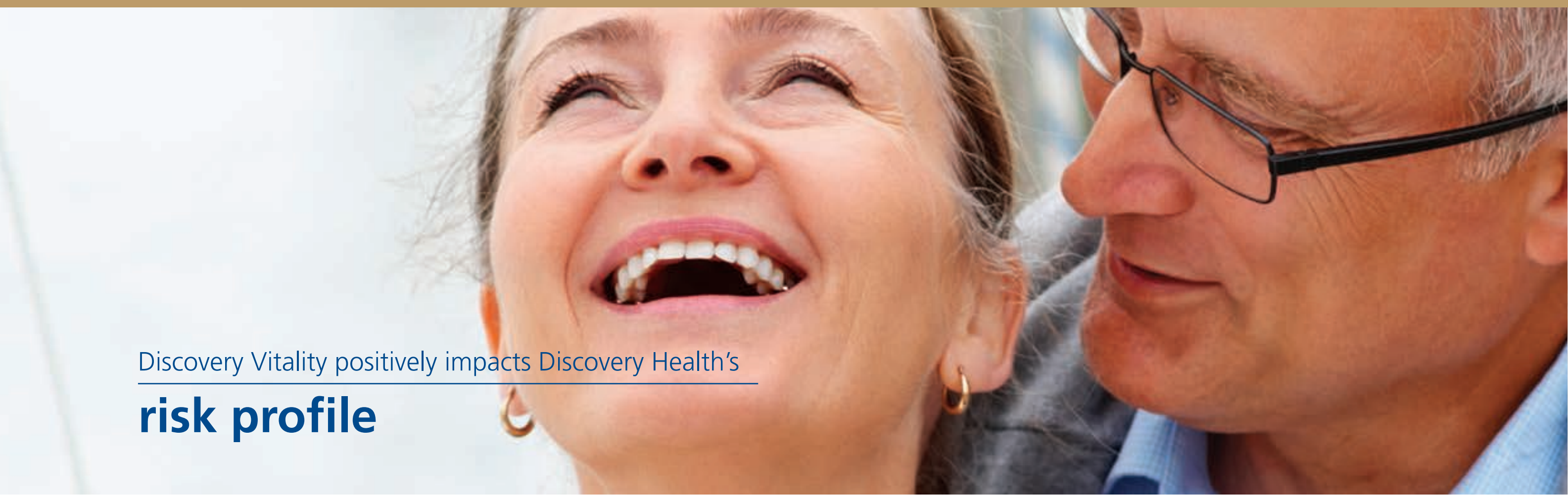
The past few years have seen an intensification of the consumerist trend. The advent of online tools and social media now makes it possible for people to access information and take control of decisions previously left to the experts.

For Discovery Health, these developments present a unique opportunity to use our sophisticated technology platform and extensive data to help our members navigate the complexity of the healthcare industry. Discovery Health's consumer-driven philosophy has always been to engage members actively in managing their health.

> "Independent industry surveys also consistently rate Discovery Health as the top service performer. For example, in the annual Private Health Tracker survey, released in March 2009, members and health professionals rated the overall quality of Discovery Health's service as the best in the industry."

Group chief executive officer's report (continued)

Discovery Health



Discovery Vitality positively impacts Discovery Health's

risk profile

A new range of online tools in 2010 will further empower members to make better-informed decisions about their health, their healthcare and their Discovery Health benefits. These tools include the Discovery Health Patient Record and Discovery Health MaPS (medicine and provider search).

The Discovery Health Patient Record makes members' personal medical records easily and securely accessible to them. It will allow them and their healthcare professionals to access comprehensive and up-to-date personal medical information. Different healthcare providers will be able to share a patient's records to work collaboratively. It will also make it possible for providers to better track their patient's response and outcomes.

Discovery Health MaPS (medicine and provider search) helps members find healthcare providers in their area who operate within Discovery Health's networks. The tool also lets members know whether their plan will cover the health provider's claim in full or not.

We will also introduce tools that help members and their financial advisers ensure the correct health plan choice, by providing a clear and accessible explanation and comparison of the salient features of each Discovery Health Plan. A "Benefit Messenger" will provide members with real-time benefit advice – for example, by educating them on the different impacts on their health plan benefits of using patent drugs versus generics – so they can maximise their cover.

These benefits also significantly enhance the level of personalisation and immediacy of our service offering to members, allowing us to meet our goal of a truly personal, high-touch approach that centres on the individual.

Leveraging Vitality and its integration capability to the benefit of our members

While entirely separate to the Discovery Health Plans, the Vitality wellness programme is key to Discovery Health's ability to engage members in their health. It gives people the knowledge and tools to understand and improve their health status, enabling them to reduce their healthcare costs in the long term. This positively impacts the risk profile of the Discovery Health Medical Scheme, driving down contribution inflation.

Going into 2010, enhancements to the Discovery Vitality HealthyFood™ benefit will have positive spin-offs for Discovery Health members. Discovery Health members who also belong to Vitality and have a Visa DiscoveryCard, can choose to activate the new Medical Savings Booster. This benefit will increase members' saving up to 75% on their purchases of over 6 000 HealthyFood™ items at Pick n Pay. They will then have the ability to use their HealthyFood™ savings to fund out-of-pocket healthcare expenses when they run out of day-to-day benefits within their Discovery Health Plan.

Prospects and the year ahead

The strength and consistency of Discovery Health's performance has enabled the company to grow its profitability, scale and infrastructure significantly, placing it in a particularly strong position going forward. This is of importance in the current environment, where economic pressures and policy reform demand that Discovery Health play a leadership role on behalf of our members and the community as a whole.

"Going into 2010, enhancements to the Discovery Vitality HealthyFood™ benefit will have positive spin-offs for Discovery Health members."

Going into 2010, Discovery Health remains committed to building and improving the healthcare system – not for its members alone, but for all South Africans. As mentioned before, we aim to work closely with Government in its pursuit of healthcare reform. To this end, Discovery will continue to make available its expertise and resources, and will engage positively and constructively.

Discovery Life

Discovery Life is committed to achieving and maintaining a leadership position in the South African life insurance industry. We aim to do this by building a business of unique quality that meets clients' needs. Our methodology focuses strongly on product distribution and financial excellence and uses Discovery's assets – particularly, those of Vitality – to innovate and integrate our products to meet our clients' needs.

Discovery Life's performance during the period was pleasing and yielded excellent results despite the trying circumstances that have faced the financial services sector.

Financial performance

Discovery Life's new business increased by 27% to R1 519 million in annualised premium income (2008: R1 201 million). Profits grew by 20% to R1 184 million (2008: R989 million) and gross inflows by 18% to R3 675 million (20008: R3 118 million).

Overall, Discovery Life outperformed the negative effects of the recession. Discovery Life maintained new business margins at similar levels to last year, and also maintained average premiums, claims experience and the percentage of premium derived from the addition of ancillary benefits.

However, lapse rates did escalate during the period. We expected lapse rates to rise as consumers face increasing financial pressure. Nonetheless, Discovery Life's lapse rate remained below the assumptions used in the company's reserving basis, ensuring a negligible impact on Discovery Life's profitability.

Applying a more conservative view of future lapses did have an effect on the embedded value. However, the other aspects of the company's performance were exceptional and sufficient to offset the effect of lapses, enabling it to generate positive experience variances despite the negative environment. Coupled with the increased volume of new business production and quality of the business transacted, this enabled Discovery Life to increase its embedded value by 8% to R8 686 million.

Discovery Life restructured its R5.4 billion negative reserve during the period to ensure it continues to enjoy considerable capital robustness and flexibility. This asset is of considerable quality with substantial margins and returns that are consistent and more than the Group's risk discount rate. However, it lacked flexibility and as it grows, would constitute a concentration of resources. We therefore made two distinct structural changes:

1. We converted R750 million of the negative reserve into cash through reinsurance and, in the process, transferred risk from the Discovery Life balance sheet, while retaining the upside margins of the negative reserve.
2. We transferred the lapse risk of up to a further R1 billion of the negative reserve through reinsurance. This created the opportunity for Discovery Life to raise R1 billion of cash by selling retail investment products, which we are able to back with the remaining guaranteed negative reserve. This enables Discovery Invest to offer uniquely competitive investment products.

Group chief executive officer's report (continued)

Discovery Life

These initiatives makes it possible for Discovery Life to realise up to R1.8 billion in cash and transfer risk while maintaining margins. Discovery Life's capital strength positions it well for continued future growth with limited recourse to shareholder funding.

Key features of Discovery Life's performance during the year

Product innovation and integration unlocks value and efficiency

Discovery Life's integration model draws together the wellness benefits of Vitality and the Discovery LIFE PLAN to engage policyholders in managing their health. Discovery Life then uses the information about their level of health engagement over time to price risk accurately. We give policyholders the benefit of anticipated future reductions in their health risk upfront through initial premium savings when they buy a Discovery LIFE PLAN that is integrated with Discovery Vitality or with Discovery Health and Discovery Vitality. Thereafter, through Discovery Life's dynamic underwriting approach, policyholders are encouraged through lower premiums and additional value to maintain and improve their health.

At the start of the period under review, Discovery Life had just introduced an enhanced Discovery LIFE PLAN focused on offering the most cost-effective, dynamic and relevant risk cover. New features included:

- The Discovery Life Cover Integrator leverages Discovery Life's integration model to bring down the cost of additional life cover. Policyholders are able to buy additional cover in tranches of either 20% or 40% at an approximate premium saving of 50% on the extra cover.
- The Discovery LifeTime Severe Illness Benefit and LifeTime Capital Disability Benefit, aimed at protecting clients against the long-term lifestyle impact of severe illness or disability. The benefits make use of a unique impact assessment filter that takes account of the policyholder's financial obligations and future medical costs to calculate a far more accurate claims payout.
- The Dynamic Spend Protector, which by using the DiscoveryCard, works in tandem with the Income Continuation Benefit to safeguard policyholders against the rising cost of living should their income-earning ability be affected by disability or critical illness. In such an event, policyholders can receive significantly deepened discounts within the DiscoveryCard retail partner network.

These benefits have proven timely and relevant, contributing to the life assurer's strong performance. Recent analysis shows that Discovery Life's new business production and profitability levels are the highest in the pure-risk assurance market, outstripping those of more established players.

Policyholders purchased life cover to the value of approximately R30 billion through the new Cover Integrator. The Lifetime Benefit technology served to increase the take-up of the Severe Illness benefit by 10%, Capital Disability Benefit by 5% and Income Continuation Benefit by 10% in the period.

Severe illness cover has been in the spotlight this year

Recent industry events have placed severe illness cover on the public agenda with the introduction of the Standardised Critical Illness Definitions Project (SCIDEP), first announced in April 2009. The project is an initiative of ASISA, the representative body for life offices and collective investment schemes, and seeks to make it easier for consumers to compare the severe illness policies of different life assurers that make use of tiered benefits for critical illness claims. Discovery Life led the industry move to tiered benefits when it was the first life assurer to introduce objective clinical criteria and multiple claims payments for dread disease claims in 2000. Discovery Life based the innovation on two key insights – firstly, subjective criteria left policyholders uncertain of whether or not their insurer would pay their claims and, secondly, the expiry of the policy after a single claim meant many policyholders who fell ill again would have no cover.

A statistical analysis of Discovery Life's claims data done earlier this year validates Discovery Life's approach. The results shows that many policyholders – between 7% and 10% – do indeed claim a second time, usually for a condition related to the first. An analysis of 6 954 stroke victims over a two-year period found that 16% went on to have a second stroke and needed cover a second time.

Discovery Life is pleased that many players in the industry have adopted a tiered benefit approach and we have been an active participant in the industry-move towards standardised criteria. The claim definitions within the Discovery Life Severe Illness Benefit are compliant with those set out in the Standardised Critical Illness Definitions Project.

Excellent distribution performance a key factor in Discovery Life's success

Distribution excellence is a key feature of Discovery's overall strategy and has been a driving force to date in Discovery Life's success. We bolstered Discovery's existing broker-based distribution channel, Discovery Consulting Services, in early 2008 with the introduction of our tied agency force, Discovery Financial Consultants. Both channels performed well during the period under review.

The level of support among independent financial advisers increased significantly during the period, with the number of independent financial advisers selling Discovery Life products increasing by more than 650 to 5 722 financial advisers. Discovery's tied agency force grew from 149 to 206 agents nationwide, achieving exceptional levels of productivity, far in excess of the industry average.

Better risk experience and persistency improves performance

Discovery Life attributes its high new business volumes, higher-than-average persistency levels and the larger-than-average size of its policies to the impact of its integrated approach.

The business Discovery Life transacted during the period has again been of exceptional quality resulting in positive experience variances. Discovery Life's claims loss ratio continues to exceed expectation and is dramatically below industry levels. This shows the power and soundness of Discovery Life's risk management strategies and the benefits of integration with Vitality.

Prospects and the year ahead

Discovery is committed to building a life assurer of considerable scale and quality and, to this end, has invested in excess of R2 billion into Discovery Life since inception. Along with continued investments in distribution and service infrastructure, research and development is a key area of investment for Discovery Life. At the time of writing, Discovery Life announced additional product enhancements that further leverage Discovery Life's integration capability through Vitality to offer policyholders even greater protection and value.

Discovery Life's product, capital and distribution strength, position it well for further growth going forward.

Discovery Invest

Discovery Invest harnesses the breadth and skill of the investment market's asset management capabilities and the sophistication of an open architecture platform to offer investors more value and unique protection. It combines these features with Discovery's innovation and integration capability to create products that protect investors from volatility and downside. Discovery Invest offers a broad range of long-term savings products, but creates significant differentiation within the various products and funds it offers.

Discovery Invest's performance for its first full year of operations was pleasing, especially in the context of the depressed economic environment.

Financial performance

Launched towards the end of 2007, Discovery Invest began actively trading during 2008, precisely at the start of the economic crisis and the resulting turmoil in the financial markets. Discovery has used this time to build significant capability and capacity within Discovery Invest, placing it in favourable position within its market.

During the period, assets under management reached R4.2 billion (2008: R1.3 billion) by year-end. Gross inflows improved by 264% to R3 290 million (2008: R903 million), while operating losses reduced by 22% to R122 million (2008: R157 million).

Focus areas in 2009

Innovative product technologies that drive competitive differentiation

The investment industry had already achieved high levels of efficiency through lower costs and the emergence of specialist asset managers at the time of Discovery Invest's market entry.

However, we discerned high levels of product commoditisation and the increasing transfer of investment risk from asset managers onto the shoulders of individual investors. Discovery saw the opportunity to leverage its consumer-engaged methodology to introduce innovative, differentiated products and investment protection, creating the potential for it to compete successfully in the long-term savings market.

Discovery Invest launched in October 2007 with a range of products – spanning preservers, a retirement income plan, retirement plan, flexible investments and endowments – that integrate with Discovery Life and Discovery Vitality's offerings. For example, investors have the ability to benefit from savings of between 40% and 100% on administration and asset management fees on their endowment policy, depending on their monthly Discovery Life premium and level of engagement in the Vitality programme.

Group chief executive officer's report (continued)

Discovery Invest

Unique Discovery Funds such as the RightChoice™ Investments and Escalator Funds provide protection against market volatility.

Discovery Invest also collaborates with leading global and local asset managers, including Investec Asset Management, Deutsche Bank and Investment Solutions, to add to our own risk management and product development competencies. The strategy is paying off for investors with the Discovery Equity Fund and Discovery Flexible Property Fund (both managed by Investec Asset Management on our behalf) ranking among the year's top performing funds in their respective categories.

In March 2009, we introduced the first enhancements to the Discovery Invest product offering, including the Upfront Investment Integrator. Discovery Life policyholders who take out a Discovery Invest Endowment plan are able to boost their investment by up to 26% – in essence offsetting the impact of the financial losses in investment markets suffered over the past year. We augmented this with the launch of Invest Interactive – a fully interactive Discovery Invest website with useful tools for financial advisers, analysts and investors.

Distribution strength and reach

Despite the depressed investment market, Discovery Invest produced pleasing levels of new business owing to the growth and superior performance of its distribution channels. We invested considerable effort during the year to build and enhance the Discovery Invest focus and capability within both Discovery Consulting Services, which services the independent financial adviser market, and Discovery Financial Consultants, our tied agency force. We have recently – post the reporting period – introduced a specialist area within the agency force that concentrates purely on selling Discovery Invest.

The number of supporting financial advisers and agents has grown from a zero base in November 2007 to just under 2 500 at financial year-end. We have also seen increases in the new business volumes of supporting financial advisers, with some financial advisers introducing seven or more new cases every month.

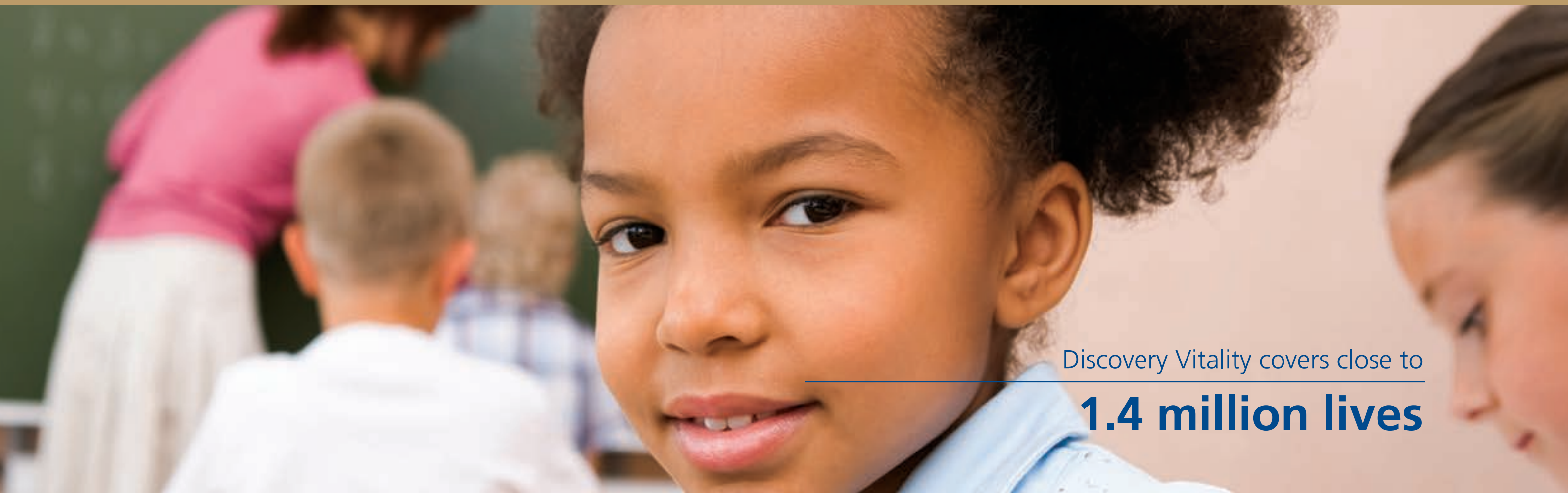
The results have been increasing levels of new business, with our guaranteed return plan and single premium products proving particularly popular. We have seen sharp increases in both instances since March, suggesting that the introduction of product enhancements in March have contributed to the financial adviser market's awareness and to the competitive appeal of our product offering.

Brand awareness and credibility

Initiatives like the Discovery Invest Leadership Summit and an association with Moneyweb, spanning a number of investment seminars, and a host of online and broadcast elements, were rolled out to build the company's presence, brand, and to showcase its capabilities to its target market.

Prospects and the year ahead

Discovery Invest is positioned for growth going forward, particularly as market conditions improve. The launch of an offshore investment offering in October 2009 will serve to augment Discovery Invest's product range, ensuring its attractiveness and bolstering its ability to compete. Further effort in the area of product innovation, distribution and brand presence will facilitate Discovery Invest's future growth and, once we have built a business of competitive scale and excellence, its eventual profitability for shareholders.



Discovery Vitality

Vitality's role is foundational within the broader Discovery group, enabling us to deliver on our core purpose of making people healthier and protecting and enhancing their lives. Vitality adds value to Discovery clients, engages them in managing their health and facilitates integration. This in turn drives better selection, improves loyalty and enhances mortality and morbidity experience. The DiscoveryCard is an important facet of Discovery Vitality's offering, serving as an additional platform for integration and product differentiation for the Group.

During the period under review, Vitality performed strongly both in delivering on its strategic role and financially.

Financial performance

In every report, we highlight the fact that Vitality is a profitable business in its own right, yet that its financial performance is of lesser importance to the group than its performance as value creator and integration vehicle.

Vitality grew significantly during the period, adding 135 568 new members – an increase of 44% on last year's figure. It achieved operating profits of R40 million – somewhat lower than the R49 million achieved in 2008, but well within our expectations. The DiscoveryCard performed pleasingly as well, growing its advances portfolio by 12% to R2.02 billion (2008: R1.8 billion) and increasing its point-of-sale market share to 6.23%, an improvement of 26% on 2008's level of 4.94%.

Strategic performance

Academic studies bear out Vitality's effect on mortality and morbidity

As the chronic disease burden associated with lifestyle issues such as poor nutrition, smoking and lack of exercise has grown, the trend to wellness has accelerated in recent years. Internationally, the role of wellness programmes that enable and incentivise behaviour-change is coming prominently to the fore with the support of corporates, governments and policymakers around the world. This in the worldwide wake of rising healthcare costs caused by the growing burden of chronic disease.

In a statement following meetings with key business leaders on the impact of wellness programmes in the workplace, US President Barack Obama was quoted as expressing the hope that: "By encouraging more employers to adopt similar program[me]s, we can improve the productivity of our workforce, delay or avoid many of the complications of chronic diseases, and slow medical cost growth".

Vitality is an acknowledged pioneer in the field of wellness and incentive-based wellness interventions internationally. With close on 1.4 million members, Vitality is probably the largest wellness programme of its kind in the world.

In the early phases of Vitality's roll-out, our focus was on the aspect of incentives – creating the most appealing rewards and efficient structures to drive behavioural change. Over the past few years, as our incentive structures have proven their efficacy, our focus has increasingly shifted to understanding the science behind Vitality and measuring the clinical and actuarial effects of Vitality on mortality, morbidity and persistency.

Group chief executive officer's report (continued)

Discovery Vitality

Importantly, this understanding of Vitality's impact provides the foundation for the further integration of Discovery's products, and their ability to offer unique value to our clients.

The power of Discovery Vitality HealthyFood™

Particularly important in the period was the launch of the Discovery Vitality HealthyFood™ benefit with Pick n Pay – in our view, one of the boldest steps in the evolution of Vitality. The introduction of this benefit stemmed from the need to address poor nutrition, a major driver of morbidity and mortality worldwide.

Discovery Vitality HealthyFood™ provides consumers with a list of healthy foods, carefully selected by the Vitality Nutrition Panel. Based on the latest scientific research and their expertise in the nutrition and diet field, this panel of leading experts compiled a "shopping list" of 6 000 everyday healthy foods. They review this list of HealthyFood™ items on an ongoing basis, as new products reach the shelves and scientific research sheds more light on the nutritional impact of different food items.

The HealthyFood™ benefit gives members access to an up to 25% discount on HealthyFood™ at Pick n Pay. It also links to the DiscoveryCard to reward members for making healthy nutrition choices.

The market's reception of the benefit has been exceptional and at the time of writing, 125 000 people had activated the benefit, purchasing over one million trolleys of HealthyFood™ items.

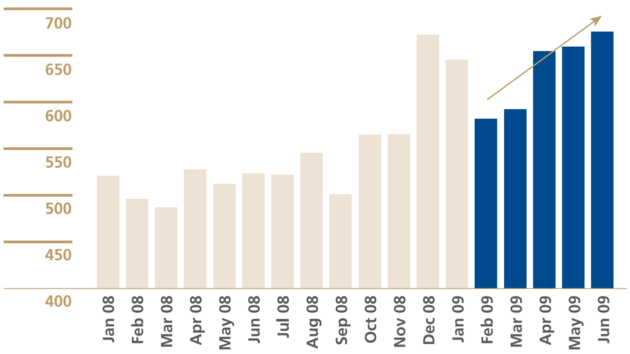
Increased take up of Vitality

Increasing the take-up of Vitality is a key strategic objective for Discovery, given the significant impact that Vitality has on lapse rates, loyalty and claims experience across our businesses. The HealthyFood™ benefit has had a distinct impact and the number of lives covered has grown from just over 1.3 million in September 2008 to close on 1.4 million by September 2009.

Increased DiscoveryCard spend

Since the launch of HealthyFood™, the amount that DiscoveryCard holders spend monthly at Pick n Pay has increased significantly. The latter has been a DiscoveryCard partner since 2007 and attracts the most spend of all DiscoveryCard partners. However, HealthyFood™ has upped that spend significantly.

Increase in DiscoveryCard expenditure since the launch of HealthyFood™ in late February 2009 (R million)



Increased completion rate of Personal Health Reviews

HealthyFood™ has also led to a significant increase in the number of Personal Health Reviews completed by Vitality members this year. A Personal Health Review allows Vitality members to understand their current health status, influences their readiness for change and is the first step on the path to a healthier lifestyle. Vitality members who complete a Personal Health Review after activating the HealthyFood™ benefit increase their cash back on HealthyFood™ purchases from 15% to up to 25%.

Last year, from January to June, 40 000 Vitality members completed this online health risk assessment. In 2009, in the same period, more than 140 000 Vitality members completed Personal Health Reviews, showing the powerful motivation HealthyFood™ has for members to change their behaviour.

Enhancements will deepen its impact in 2010

The HealthyFood™ benefit provides a platform for further product innovation and integration with Discovery's other offerings going forward. The launch in September 2009 of a number of enhancements already demonstrates the benefit's integration capability. The Medical Savings Booster, discussed in the Discovery Health section above, allows Vitality members, with a DiscoveryCard and a Discovery Health Plan to use their HealthyFood™ savings to fund shortfalls in their cover for day-to-day healthcare expenses.

Going into 2010, we have also announced an enhancement aimed at improving the health impact of HealthyFood™. Members will now be able to earn more Vitality points per purchase based on the proportion spent on HealthyFood™ items compared to less desirable food choices, such as sweets, biscuits, sugary drinks and confectionery. The lower the proportion of HealthyFood™ in the shopping basket to less desirable food, the fewer Vitality points members will earn.

We expect the HealthyFood™ benefit to gain momentum in the year ahead, given these enhancements.

DiscoveryCard has performed well, despite a difficult environment

DiscoveryCard's performance over the period was pleasing. Clearly, given the difficult economic environment brought about by the credit crisis, and the impact of the National Credit Act, the environment in which DiscoveryCard operates was a difficult one. DiscoveryCard's focus was therefore on the quality of its book, careful risk management, and developing further product offerings. The effect of these strategies has been positive with the credit book performing pleasingly and a continued steady growth in the number of cards being issued.

DiscoveryCard's link to the HealthyFood™ benefit has provided impetus for the DiscoveryCard's growth, as shown on the previous page.

Participation levels in all aspects of the Vitality programme have grown

We have, during the year, seen improvements in the levels of participation across various Vitality partner facilities spanning both aspects of wellness and rewards:

- Almost half a million Discovery Vitality members belong to the Ster-Kinekor Movie Club, with access to movies at highly discounted rates.
- During the period, Vitality members clocked up over 250 000 flights with kulula.com.
- Close on 300 000 Vitality members exercise regularly with our gym partners Virgin Active and Planet Fitness.
- As mentioned, 140 000 Vitality members completed an online Personal Health Review.
- Nearly 100 000 Vitality members participated in health screenings, such as cholesterol, blood glucose and blood pressure checks, during the period.

Other important Vitality initiatives

Vitality's initiatives for children and the Vitality Schools Programme, launched in early 2008, have remained a key focus area for Vitality. These comprise initiatives focusing on children's health and wellness. The Vitality Schools Programme educates children about the importance of a healthy, active lifestyle and over 1 500 primary schools are enrolled in the programme.

During the period, Vitality Age, Vitality Interactive and Personal Pathways – interactive, online tools aimed at providing customised feedback and support to individual Vitality members to maximise the impact on their health of key behaviour changes – were rolled out in the UK and we hope to roll this same technology out in South Africa in the year ahead.

Prospects and the year ahead

Vitality provides an excellent foundation for Discovery's future competitiveness, risk management and integration capabilities. We are particularly excited about the potential impact of HealthyFood™ in these respects in the year ahead.

PruHealth

PruHealth operates in the United Kingdom's private medical insurance market, leveraging off Discovery's consumer-directed health assurance and operational infrastructure and Prudential's strength as an established financial services brand in the UK. From a strategic perspective, the quality and scale of PruHealth is of considerable importance to Discovery, as it forms the foundation for the Discovery business model in the UK.

The deep recession in the UK has had an impact on the performance of PruHealth. Despite this, the company made solid progress on a number of fronts and remains well positioned in the UK private medical insurance market.

Financial performance

PruHealth's performance since its launch has been characterised by clear product leadership and consistent new business growth. The number of lives insured grew to 212 000, an increase of 20% for the period. PruHealth's market share accounts for 2.5% of the market in terms of in-force lives, and it currently ranks 5th in the UK's private medical insurance market overall. Premiums written in the period for the in-force business increased by 37% to £86 million.

Loss ratios deteriorated to some extent in the latter half of the year under review, largely due to the recessionary environment in the UK. Operating losses reduced by 34% to R103 million (2008: R155 million). However, evidence from previous recessionary periods indicates that short-term increases in the loss ratio are an industry phenomenon and are likely to return to normal as the economy stabilises. New business grew 5% to R559 million (2008: R533 million).

Focus areas in 2009

Building a business of quality and scale in a market of growing opportunity

Claims loss ratios, lapse rates and expense efficiencies are important drivers of quality and sustainability in the private medical insurance industry. Given the importance of these factors, PruHealth has a comprehensive set of initiatives underway to manage the profitability of the business and to position it well to continue to take advantage of opportunities in the market.

Group chief executive officer's report (continued)

PruHealth

PruHealth covers over

212 000 lives

The UK is showing early signs of economic recovery, and as government budgets tighten, the National Health Service will face increasing funding pressure. This leaves private health insurers to play a bigger role going forward.

PruHealth has a number of unique assets in this regard that provide differentiation and competitive advantage. Vitality and, going forward, the integration of PruProtect and PruHealth will provide the same product, risk management and integration advantages as in the South African market. This is particularly important, given the level of commoditisation and price-competitiveness in the UK market.

The role of Vitality

Vitality is a key competitive differentiator for PruHealth and the level of engagement of PruHealth members continues to be encouraging. Vitality is central to helping lower lapse rates and improve claims-loss ratios, as it reduces healthcare costs, and improves retention levels.

An important development in the first half of the financial year was the revision of the Vitality Gym Benefit Structure to secure PruHealth from adverse selection. We changed the benefit structure from a model that discounted gym fees based on usage to a status-based model where fees are tiered depending on the member's Vitality status. While it did, as expected, result in some lapses in the earlier part of the year, the new benefit structure is performing well and members have made the transition smoothly.

New rewards partnerships, announced last year, with partners like Cineworld, Eurostar and Mark Warner, and the enhancement of the partnership with Sainsbury's, have served to maintain and enhance the appeal of the Vitality offering for members. In addition, the successful rollout of Vitality Interactive, Vitality Age and Personal Pathways during the period has added significantly to the wellness programme's ability to help change individuals' health behaviour for the better.

In addition, PruHealth has championed several high-profile wellness drives in the UK, such as the bi-annual Vitality Index, which tracks health trends and Britons' attitudes to key issues related to health and wellness. Corporate wellness is another key focus area for PruHealth's Vitality programme; this is significant given that PruHealth has seen continued growth in the SME and employer market in the year under review.

Prospects and the year ahead

PruHealth will continue to develop its competitive position through amendments to the product offering, improving the clinical and financial robustness of the Vitality programme, the introduction of lower cost hospital network plans, and enhanced managed care initiatives.

To this end, there is considerable focus on the quality of PruHealth and its competitive position. The focus for PruHealth continues to be on increasing sales, growing the in-force book and managing its loss ratio, leading to sustainable profitability over the longer term.

The quality of the business and its leadership position in the UK market, places PruHealth in a positive position going forward.

PruProtect has **12 franchises** and **91** account managers across the UK

PruProtect

PruProtect is Discovery's UK life assurance joint venture with the Prudential plc and aims to make Discovery's consumer-engaged pure-risk assurance products available to consumers in the UK. PruProtect leverages Discovery's product and servicing platform with Prudential's record of accomplishment and brand credibility in the UK to take advantage of the significant opportunities in the UK's largely stagnant and commoditised life assurance market.

During the period, the company focused extensively on enhancing the product range and ensuring its appropriateness for the UK market, as well as building a substantial distribution capability. This resulted in a significant increase in the levels and quality of new business, with average premiums and ancillary benefits purchased exceeding expectation.

Financial performance

PruProtect's new business production increased significantly by 320%, from R25 million in 2008 to R105 million in the 2009 financial year.

From a financial perspective, PruProtect's operating losses were largely in line with expectation and increased by 16% to R156 million (2008: R134 million). However, during the period, considerable development took place within the company's funding and capital structures to ensure the business is not overly capital intensive and with scale, becomes highly profitable with significant returns on capital.

This approach uses the actuarial structures built within Discovery Life, where the positive reserves within the Prudential's Life Fund funds the negative reserves generated by new business. This mitigates the capital-intensive nature of the business substantially, and ensures that with increasing scale, the returns on capital will be superior.

Focus areas in 2009

While the UK life assurance market is of considerable scale, transacting business is highly capital intensive, and traditional products are commoditised with low margins. PruProtect's strategy of focusing on product innovation and high-advice, face-to-face distribution capabilities are crucial to penetrating the market and building a profitable business.

Enhanced high-advice, face-to-face distribution capability

In the earlier half of the financial year, we applied substantial effort to improving the franchise distribution channel with more efficient incentive and management structures. By January 2009, there were 12 franchises with 91 account managers actively deployed across the UK.

The company focused on building a telephone-based account management system in line with the more traditional approach to distribution in the UK. These steps resulted in significantly improved new business levels during the period.

PruProtect has also been working actively to secure contracts with a variety of multi-tier and single-tier organisations, which we will service through these two distribution channels.

The combination of these distribution channels will provide a significant distribution capability for PruProtect.

Product relevance

While Discovery's Vitality and life assurance technology resonated well in the UK market, the concept of increasing premium rates during the term of the policy was difficult to market. To overcome this, we streamlined Vitality with premium rates declining in line with health engagement. Early indications are that the UK market has been receptive to the new structure.

Group chief executive officer's report (continued)

Destiny Health and Vitality in USA

Prospects and the year ahead

Discovery remains optimistic about the potential of PruProtect, particularly because of the combination of product receptivity, distribution capability and capital efficiency that exist within the UK market.

Destiny Health and Vitality in the USA

The wind-down of Destiny Health, Discovery's US health insurance subsidiary, progressed according to plan and is virtually complete. Membership has reduced from 60 000 lives to approximately 238 lives at the time of writing, with the cost base being dynamically realigned to support the diminishing scale of the business.

In addition to the wind-down, we are in the process of building out the core Vitality capability in the United States. This will serve as the research-and-development and clinical and scientific hub for Vitality globally. The positioning of Vitality in the US will enable Discovery to access the latest clinical and behavioural research needed to support and enhance the Vitality programme, as well as to pursue niche opportunities in the US as they arise.

On a final note

This report has given a broad ranging overview of Discovery's established and new businesses. I hope it has demonstrated the unique challenges within each business, but also illustrated the many synergies and shared themes.

As always, the critical success factor for the Group's performance has been our people, whose talent, integrity and sheer hard work make it all possible. On behalf of the Board and Executive Committee of Discovery, I want to thank Discovery's employees and congratulate them again on these positive results.

I would also like to wish them the best in 2010, a year that will focus the world's attention on our country and all it has to offer. I am confident of the ability of Discovery's people to make a difference and contribute to South Africa and its future in positive ways.

Adrian Gore
Group chief executive officer

Key observations from the CEOs

Discovery Health

Neville Koopowitz (45), BCom, CFP
Chief executive officer: Discovery Health

- Discovery Health performed exceptionally for all stakeholders.
- The company's operating profits increased 15% and membership grew by 45 000 lives.
- The Discovery Health Medical Scheme kept contribution inflation in check and grew benefits per member.
- Discovery's unique assets make it sustainable and a powerful partner in building the healthcare system in South Africa.

Discovery Life, PruProtect and Discovery Invest

Herschel Mayers (49), BSc (Hons), FIA, FASSA
Chief executive officer: Discovery Life, PruProtect and Discovery Invest

- Discovery Life grew quality new business through product and distribution excellence.
- New business increased 27% and operating profit grew 20%, thereby negating the impact of the economic environment.
- PruProtect's performance exceeded expectation, with reduced losses and growth of 320% in new business.
- PruProtect's results illustrate the explicit strategy of product differentiation and high-advice distribution.
- Discovery Invest continued to build its capability during the period under review.
- Discovery Invest's cumulative gross inflows increased to nearly R4.5 billion.

Discovery Vitality

Alan Pollard (40), BSc (Hons), FIA, FASSA
Chief executive officer: Discovery Vitality

- We worked to academically understand Vitality's effect on health and healthcare costs, allowing us to build on its foundational role.
- The successful roll-out of powerful structures, like HealthyFood™, will add to the Group's integration and differentiation capabilities.

PruHealth

Shaun Matisonn (36), BSc, FFA, FASSA, ASA, MAAA
Chief executive officer: PruHealth

- PruHealth made solid progress during the period, with lives covered growing by 20%.
- The UK recession set PruHealth back against its financial plan, but our product leadership gears us to take advantage of market opportunities.

The science-based Vitality wellness programme is the foundation on which Discovery builds its products. It is a powerful value creator and competitive differentiator, allowing us to integrate our different offerings. It attracts the young and healthy, and engages clients in managing their health. This leads to better risk selection, better claims experience and lower lapse rates. The DiscoveryCard, a Visa credit card, adds to Vitality's ability to reward clients and add value.

Discovery's focus now is on understanding the science of Vitality, so we can further enhance its integration capability and the impact is has on our clients' lives.

Discovery Vitality covers

1.4 million lives

Discovery Vitality is the

largest wellness programme in the world of its kind

Discovery Vitality is accredited by the

Sports Science Institute of South Africa

Academic studies have shown Vitality

lowers healthcare costs

Vitality signed up over

100 000 people on the new HealthyFood™ benefit

Discovery Vitality

Discovery Holdings Directorate

Executive

A Gore
NS Koopowitz
HP Mayers
A Pollard
JM Robertson
B Swartzberg
R Farber**

Non-executive

Dr BA Brink†
P Cooper
Dr NJ Dlamini*
SB Epstein (USA)†
MI Hilkowitz (Chairperson)†
Dr TV Maphai
AL Owen (UK)†
SE Sebotsa†
T Slabbert
SV Zilwa

** Resigned 30 November 2008*
*** Appointed 1 July 2009*
† Independent

Dr BA Brink (57)
BSc (Med), MBBCh, DA (SA)
Non-executive director

Dr Brian Brink has been employed by Anglo American for more than 25 years and in his current capacity, as chief medical officer, he advises Anglo Group companies around the world on a broad range of health-related issues. Dr Brink also spends much of his time advising businesses on how to respond effectively to HIV and AIDS; he currently leads the Private Sector Delegation on the board of the Switzerland based Global Fund to fight AIDS, TB and Malaria. Dr Brink sits on the boards of various NGOs involved in health and human rights and he is the chairperson of the International Women's Health Coalition based in New York.

Peter Cooper (53)
BCom (Hons), HDip Tax, CA (SA)
Non-executive director

Peter is chief operating officer of RMB Holdings. As RMBH's representative, he also serves on the boards of its investments, including OUTsurance and RMB Structured Insurance. Peter graduated from the University of Cape Town in 1978 and after qualifying as a chartered accountant he worked in the financial services sector, first as a tax consultant and later specialising in corporate and structured finance with UAL Merchant Bank after which he joined the RMB group in 1993.

Steven Epstein (66)
JD, Columbia University Law School, BA, Tufts University
Non-executive director

Steven is the founder and senior partner of Epstein Becker & Green, one of the largest US-based health law firms that support clients in health practice on issues that range from health policy and strategic partnering to complex compliance issues. He sits on the board of Destiny and a number of healthcare companies and the advisory boards of several venture capital firms. For over 30 years, he has played a unique role in establishing the concept that healthcare organisations need a dedicated form of legal representation.

Richard Farber (38)
BCom (Hons), CA (SA), ACMA
Executive director

Richard was a partner at Fisher Hoffman Sithole (PKF) from 1998 until 2001 before joining Investec Bank, where he was the group accountant from 2002 to 2003

He joined Discovery as the chief financial officer in 2003 and was appointed as the financial director on 1 July 2009. Richard is also a member of the Generally Accepted Accounting Practice (GAAP) Monitoring Panel of the Johannesburg Stock Exchange and an associate of the Chartered Institute of Management Accountants.

Adrian Gore (45)
BSc (Hons), FFA, ASA, MAAA, FASSA
Group chief executive officer

Adrian started Discovery Health in 1992 after conceiving the idea of a specialist risk management company that offered clients innovation, flexibility, value and excellent service. He was chosen as the Ernst & Young Entrepreneur of the Year in 1998. He currently serves on the boards of Discovery Holdings, Discovery Health, The Vitality Group (US), Vitality LifeStyle (Pty) Ltd, and PruHealth and PruProtect in the UK. He is also the chairperson of Endeavour South Africa, a global organisation that focuses on developing entrepreneurial talent.

Monty Hilkowitz (69)
FIA
Non-executive chairman

Monty worked for Southern Life Association and Swiss Re before joining Liberty Life in 1971 where he was appointed managing director in 1978. He was appointed as chief executive officer of Westpac Life in Australia in 1986. He has been self-employed since 1989 and was involved in investment management, financial services and insurance interests in several countries. He is currently a director of The Dublin Network and Acuvest, a specialist financial services companies in Ireland. He also serves as the chairperson of Pioneer International.

Neville Koopowitz (45)
BCom, CFP
Executive director

Neville joined Discovery as marketing director in 1996 and has played a key role in defining and building the Discovery identity. A particular area of focus of his has been the development of Vitality and DiscoveryCard. He also played an important role in the development of Discovery's sales and distribution environments. He is currently the chief executive officer of Discovery Health.

He serves on the board of the Sports Science Institute of South Africa and the Board of Trustees of the Laureus Sport for Good Foundation's South African chapter.

Dr Vincent Maphai (57)
BA, BA (Hons), M Phil, D Phil, Advanced Management Program (Harvard)
Non-executive director

Dr Maphai is the director of corporate affairs and transformation at the SAB. Previously he was the Southern African chairperson of BHP Billiton. In an academic career spanning two decades, he taught at various universities both locally and abroad and consulted with several blue-chip companies on a range of transformation and human resource issues. He was also a research executive director of social dynamics at the HSRC for three years. He has served on the boards of various companies as non-executive chairperson, and he has chaired the SABC, the Presidential Review Commission into the restructuring of the public sector, and the South African Responsible Gambling Trust. Dr Maphai is also the chairperson of the Discovery Foundation.

Herschel Mayers (49)
BSc (Hons), FIA, FASSA
Executive director

Herschel joined Discovery in 2000 to set up and launch its life insurance arm, Discovery Life. Before that he spent 20 years in senior positions at Liberty Life heading up administration, underwriting, systems, technology, product development and finance for group and individual life business. He was also a director of Millenium, Guardbank, Oracle and Liberty Healthcare. Herschel was appointed chief executive officer of Discovery Life in 2006. He also serves on the board of Discovery Holdings, Vitality and the Association of Savings and Investments South Africa (ASISA).

Les Owen (60)
BSc (Hons), FIA, FIAA, FPMI
Non-executive director

Les is a qualified actuary with over 35 years experience in the UK and Asia Pacific insurance markets. He was the group chief executive of AXA Asia Pacific Holdings Limited from 2000 to 2006 and chief executive officer of AXA Sun Life in the UK from 1995 to 1999. Les brings to the board extensive experience and expertise in international insurance markets. He is a non-executive director of Computershare Ltd and the Football Federation of Australia, and is chairperson of the Discovery Holdings audit and risk committees.

Alan Pollard (40)
BSc (Hons), FIA, FSSA
Executive director

Alan joined Discovery Health in 1994 and headed up Research and Development where he was responsible for the design and development of the Discovery Health products. A qualified actuary, he is currently the chief executive officer of Discovery Vitality and is a member of the executive committee and actuarial committee of the Discovery Group.

John Robertson (61)
BCom, CTA, CA (SA), HDipTax
Executive director

John joined Discovery Health in April 1993 and was responsible for information technology strategy, systems development, information technology networks and finance. He is currently responsible for all aspects of information technology, e-commerce and all internal corporate operations at Discovery. He is also responsible for the strategic development of technology and information systems for the USA and for the South African operations of the PruHealth joint venture.

Sonja Sebotsa (37)
LLB (Hons), MA
Non-executive director

Sonja is the founder and Principal Partner in Identity Partners, an investment firm which makes equity investments, carries out advisory work and provides debt and equity finance for SMEs by the Identity Development Fund. Sonja's areas of study were law, business and economics. Until August 2007, she had been an executive director of WDB Investment Holdings where she led the structuring of several of WDB's investment transactions. Before this she was a vice president in the investment banking division of Deutsche Bank, where she worked in Mergers and Acquisitions and Corporate Finance in South Africa and the UK.

Tania Slabbert (42)
BA, MBA
Non-executive director

Tania joined WDB Investment Holdings in 1999 and has been the CEO of WDB Investment Holdings for the past seven years where she has spent time building up and managing a portfolio of investments to support the WDB Group's mission of economic development of women in South Africa. Her work entails sourcing, negotiating, structuring, and monitoring investments, as well as mentoring SMEs and ensuring placement and promotion opportunities for women within these investments. Before joining WDBIH, Tania spent four years in the diplomatic corps, working in the political division of the South African embassy in Paris, France. Prior to this experience, she spent a number of years in West Africa working in the Non-Governmental Sector where her focus was economic development policies and their implementation. Her other directorships include BP South Africa, Rennies Travel, Bidvest Group and Dinatla Investment Holdings. She is also a non-executive board member of the Business Women's Association.

Barry Swartzberg (44)
BSc, FFA, ASA, FASSA, CFP
Executive director

Barry was a pioneer of Discovery Health in 1992 and was involved in developing the Discovery concept. After Discovery Health was launched, he was involved in setting up the administration and systems infrastructure for the company. Following that he was the marketing director. He was chief executive officer of Discovery Health from 2000 to 2005 and is currently the group executive director of Discovery Holdings, and is responsible for Discovery's international operations. He serves on the boards of Discovery Holdings, The Vitality Group in the USA and PruHealth and PruProtect in the UK.

Sindi Zilwa (42)
BCompt (Hons), CTA, CA (SA), Advanced Taxation Certificate (SA), Advanced Diploma in Financial Planning (UOFS), Advanced Diploma in Banking (RAU),
Non-executive director

Sindi is the chief executive officer of Nkonki, a chartered accountancy firm. She was the second black woman to qualify as a chartered accountant in 1990. In 1998, she was awarded the Business Women of the Year title by the Executive Women's Club, and she was awarded the Woman of Substance Award for 2008 by African Woman Chartered Accountant's Forum. She is a member of SAICA's Education Committee, and serves on the boards of Woolworths, Aspen, Ethos Private Equity, Strate Limited and is the chairperson of Airports Company South Africa (ACSA).

Corporate governance committees and secretary

Actuarial committee

AB Rayner (Chairperson)
BSc (Hons), ARCS, FIA, FASSA

RD Williams (Statutory Actuary)
BBus Sc, FIA

RE Lee
MA, FIA

HP Mayers

S Matisonn
BSc, FFA, FASSA, ASA, MAAA

B Swartzberg

A Pollard

Audit and risk committee

AL Owen (Chairperson)

SE Sebotsa

SV Zilwa

Remuneration committee

MI Hilkowitz (Chairperson)

T Slabbert

M Olivier (Independent HR expert)

Transformation committee

Dr TV Maphai (chairperson)

T Slabbert

SV Zilwa

A Gore

B Swartzberg

HP Mayers

JM Robertson

NS Koopowitz

A Pollard

R Farber

Dr K Kropman

Executive committee

A Gore (Chairperson)

Dr J Broomberg
MBBCh (Rand), MA (Oxon), MSc (Lond), PhD (Lond)

R Farber

HD Kallner
BEconSc, FFA, FASSA

NS Koopowitz

Dr K Kropman
MBBCh (Wits), MBA (UCT)

S Matisonn

HP Mayers

K Mayet
BA (Hons), LLB, LLM

A Pollard

K Rabson
BSc Actuarial, FIA, FASSA

JM Robertson

B Swartzberg

P Tlhabi
MBChB (Medunsa), MAP (Wits), AHLF (Pompeu Fabra)

J van Rooyen
BA, LLB, HDip Co Law (Wits)

Company Secretary

MJ Botha
BCompt

Remuneration report

Introduction

This section discloses the remuneration philosophy and policies that Discovery use for executive management, employees and non-executive directors.

Remuneration philosophy and structure

The remuneration process is designed to:

- attract, motivate and retain quality employees
- encourage and reward employees to achieve the objectives of the business
- align the economic interest of employees with those of shareholders
- foster Discovery's owner-manager culture.

Responsibility for developing and governing remuneration

The board is ultimately responsible for the remuneration policy. To assist the board in fulfilling its responsibilities, it has appointed and mandated a remuneration committee, which consists of non-executive directors and independent experts.

The primary objective of the remuneration committee is to provide input to and approve the reward strategy. It is responsible for:

- approving remuneration packages for executive directors
- approving policy relating to the bonus and share incentive schemes
- recommending the non-executive directors' fees
- reviewing the annual salary increase process and the increase of senior executives
- ensuring alignment of remuneration practices with Discovery's overall remuneration philosophy.

Our philosophy is to balance a flexible approach that recognises differences in individual performance, value and contribution to the organisation, with a consistent framework that ensures equitable pay levels and defensible pay decisions.

The remuneration committee has delegated some of its functions to the internal remuneration committee. The internal remuneration committee has similar responsibilities as the remuneration committee, except that it is also responsible for the remuneration packages of management and employees in general (with the exception of directors). The internal remuneration committee supervises the increase process and looks at any increases which are higher than the annual set increase.

The remuneration committee uses the services of a number of advisors to assist in tracking market trends related to all levels of employees:

- PE Corporate Services
- Mabili Reward
- Remchannel Financial Reward Survey
- 21st Century Business and Pay Solutions.

Remuneration committee membership

Dr NJ Dlamini was chairperson of the remuneration committee during 2008. She resigned as a director on 30 November 2008, and MI Hilkowitz assumed the role of chairperson on 1 January 2009.

Other remuneration committee members during the year included P Cooper, T Slabbert and M Olivier (independent remuneration expert).

Meeting attendance can be found in the table on page 41.

All remuneration committee members have the relevant skills and experience to perform their duties.

Remuneration for executive directors

The executive directors on Discovery's board as at 30 June 2009 were:

- A Gore
- NS Koopowitz
- HP Mayers
- A Pollard
- JM Robertson
- B Swartzberg

The remuneration of executive directors for the financial year can be found on page 178.

Remuneration packages for executive directors comprise the following components:

Guaranteed component

All executive directors receive a guaranteed element of remuneration. This is based on cost to company which comprises a fixed cash portion and compulsory benefits (medical aid, life cover and retirement fund membership).

Historically, the level for the guaranteed portion of the remuneration package was set very low and external surveys were not conducted to benchmark this remuneration. Over the past two years, the remuneration committee commissioned comparative studies of peer groups and leading South African companies to find appropriate levels for these packages. Discovery uses the salary surveys listed above that are relevant (but not limited) to the financial and insurance industries.

Remuneration report (continued)

Based on the research, the remuneration committee has adjusted the guaranteed element of the executive directors' remuneration.

Short-term incentives

Short-term incentives encourage executive directors to achieve stipulated annual objectives, thereby ensuring that a significant portion of executive directors' cost is variable.

Executive directors' short-term incentives comprise two components:

- an annual personal incentive linked to individual goals for each director
- a "profit pool" element which allows senior management to share in profit if the Group's performance is above certain profit hurdles.

Long-term incentives

Long-term incentives aim to encourage executive directors to execute the long-term strategy of the Group successfully to achieve its long-term objectives. Executive directors take part in the Group's share-based incentive scheme. This scheme is described in more detail below, and details of the allocation to executive directors can be found on page 181.

Remuneration for senior management and employees

Remuneration packages for senior management and employees may contain some or all of the following components, depending on the individual's level in the Group:

Guaranteed component

All permanent employees who are not in a sales function, irrespective of level, receive a guaranteed element of remuneration. This is based on cost to company which comprises a fixed cash portion as well as compulsory benefits (medical aid, life cover and retirement fund membership). The target level for the guaranteed portion of the remuneration package is set at the 50th percentile of the financial services market.

Increases in the guaranteed component are determined in line with market increases in the 50th percentile, whilst monthly performance-related pay increased at a higher rate such that superior performance by an individual will result in the employee earning in the top quartile for his or her position. Employees in a sales function receive a variable monthly remuneration linked directly to their productivity. The level of this remuneration is also benchmarked to the financial services market.

Short-term incentives

At a management level, Discovery uses short-term incentives to achieve stipulated semi-annual and annual objectives, thereby ensuring that a significant portion of pay is variable and linked to performance.

Senior management's short-term incentives may comprise two components (depending on their level):

- a six-monthly personal incentive linked to individual goals for each employee
- a "profit pool" element which allows senior management to share in profit if the Group's performance is above certain profit hurdles.

The performance-related pay of employees in many business areas relate directly to their function and may be paid monthly, bi-annually or annually. Discovery encourages managers to include an element of performance-related pay in their employees' packages.

Long-term incentives

Senior management take part in the Group's share-based incentive scheme. This scheme is described in more detail below.

Share-based incentive scheme

Discovery operates a share-based incentive scheme that gives employees a bonus that is calculated according to Discovery's share price performance. Discovery pays these incentives in cash. Discovery implemented this bonus scheme following the introduction of income tax legislation that requires employees to pay income tax on all gains from share options that they receive from their employment. Payments made in terms of this scheme are taxable in the hands of the employee and deductible for the company making the payment. Payments are made in equal proportions on the second, third, fourth and fifth anniversaries of allocation.

Discovery has implemented a programme to hedge out a portion of the economic risk of an incentive linked to the share price.

Further details relating to the share-based incentive scheme can be found in note 32 on page 161.

Review of long-term incentives

The Remuneration Committee regularly reviews the Group's long-term incentive scheme to ensure alignment to both the Group's long-term objectives and any relevant changes in tax legislation

Remuneration for non-executive directors

The remuneration of non-executive directors for the financial year can be found on page 178.

Non-executive directors' fees are reviewed annually and benchmarked against industry standards to ensure the fees remain competitive. The remuneration committee reviews fees and makes recommendations to the board for consideration. The board then recommends these fees to shareholders for approval at the annual general meeting.

Non-executive directors receive a combination of fixed and meeting fees for their participation on the board and board committees. Black non-executive directors also participated in the Discovery BEE transaction in 2005. This initiative was approved because the board believed it highly necessary to secure the services of black non-executive directors with the relevant skills and experience.

White non-executive directors do not participate in any share-based incentive scheme.

Discovery Life is South Africa's fastest-growing major life assurer and acknowledged innovation leader. It led the industry shift to pure-risk life cover, a move projected to save consumers R5 billion by 2010. Discovery Life uses Vitality and Discovery's other assets to innovate and integrate its products, to create value for our clients and better meet their needs. We use Vitality's health and clinical benefits to deliver the most cost-effective, comprehensive risk solutions.

The positive impact of this integrated approach on Discovery Life's risk experience boosts profitability and sustainability.

Discovery Life covers

550 000 lives

Discovery Life grew new business by

20% to R1.5 billion

Discovery Life contributes

71% to group operating profit

Discovery Life is number one in its category in

risk-only new business production and profitability

Discovery Life was rated the

top life assurer in the Sunday Times Top Brands survey

Discovery Life

Corporate governance

Introduction

The directors of Discovery Holdings Limited and its subsidiaries ("Discovery") are responsible for developing, approving and monitoring corporate governance for the Group of the highest standard. In the South African context these principles are embodied in the King II Report on Corporate Governance for South Africa 2002 ("King II").

Corporate governance, the principles by which companies are managed and controlled, is of the utmost importance to the directors of Discovery and its stakeholders.

Discovery is committed to an open governance process that provides our stakeholders with a high degree of confidence that the Group is being managed ethically, within prudent risk parameters and in compliance with international best practice.

The directors are satisfied that Discovery has complied with the provisions and the spirit of King II, unless this report states otherwise.

The board of directors and its committees

Discovery has a unitary board with a clear division of responsibilities. This ensures a balance of power and authority, so no individual has unfettered powers of decision-making.

The boards of Discovery Holdings Limited, Discovery Life Limited, Discovery Health (Pty) Ltd and Vitality HealthStyle (Pty) Ltd are constituted with the same directors and function as an integrated unit in practice as far as possible. The board meetings of these companies are held concurrently, resulting in improved efficiency and flow of information. Mr MI Hilkowitz is the chairperson of the Group and is non-executive and independent according to King II. The roles of the chairperson and the chief executive officer are separate with segregated duties.

At publication of this annual report, the board consisted of 16 members, seven of whom are executive and nine non-executive directors. Of the non-executive directors, five are independent (as defined according to King II), including one director representing the BEE partners. One non-executive director is nominated by RMB Holdings Limited, a major shareholder, on the board. He is therefore not considered to be independent. The members of the board bring to it an appropriate mix of diverse skills, experience and backgrounds.

The board's charter sets out the following responsibilities:

- to be the guardian of the values and ethics of Discovery
- to consider major capital expenditure, acquisitions and disposals and any other matters which are defined as material
- to appoint the chief executive officer
- to approve the strategic direction of Discovery and the budgets that are necessary for its implementation
- to monitor the executive management in implementing the corporate vision and strategy
- to develop, approve and monitor processes designed to ensure compliance with the letter and the spirit of the law
- to communicate with shareholders openly and in good time throughout the year.

The company secretary arranges induction and orientation programmes for new directors and continuing education. This includes an explanation of their fiduciary duties and responsibilities and visits to divisions for discussions with management regarding complex industry-specific issues.

Duties of the directors

The directors exercise their fiduciary duty and act in good faith, with due diligence and care and in the best interests of the company and all stakeholders. A report from the chief executive officer is presented at each board meeting. The board also receives reports from the audit and risk, actuarial, transformation and remuneration committees.

Board performance assessment

A collective board-effectiveness evaluation is done annually with the assistance of external advisers as required.

Appointment of directors

The board is responsible for identifying potential new directors. This policy is formal and transparent and a matter for the board as a whole. The board made a specific decision not to form a separate nominations committee but to discuss and agree on nominations at the wider board forum. Non-executive directors are appointed for three years and reappointments are not automatic. The executive directors all have contracts that may be terminated with one month's notice. Directors must subscribe to the Discovery code of ethics.

Board proceedings

The board meets six times a year. A separate strategy day is arranged where executive management is invited to present and discuss strategy matters with the board. Additional meetings are convened when necessary. Directors have full and unrestricted access to relevant information and may seek independent professional advice at Discovery's expense to support them in their duties.

During the past financial year the attendance at board meetings was as follows:

	Aug 2008	Oct 2008	Dec 2008	Feb 2009	Apr 2009	June 2009
MI Hilkowitz (Chairperson)	√	√	√	√	√	√
P Cooper	√	√	√	√	√	√
A Gore (Chief executive officer)	√	√	√	√	√	√
BA Brink	√	√	√	√	√	X
NJ Dlamini	√	X	n/a	n/a	n/a	n/a
SB Epstein	√	√	√	√	√	√
NS Koopowitz	√	√	√	√	√	√
TV Maphai	√	√	√	√	x	√
HP Mayers	√	√	√	√	√	√
AL Owen	√	√	√	√	√	√
A Pollard	√	√	√	√	√	√
JM Robertson	√	√	√	√	√	√
SE Sebotsa	√	X	√	√	√	√
T Slabbert	√	√	√	√	√	√
B Swartzberg	√	√	√	√	√	√
SV Zilwa	√	√	√	√	√	√

Richard Farber, the CFO of the Group, attends the board meetings by invitation. He was appointed as an executive director with effect from 1 July 2009.
Dr NJ Dlamini resigned as a director on 30 November 2008.

Board committees

To help the board with its collective responsibility, several committees have been set up with specific tasks and responsibilities. The overall responsibility, however, remains with the board. The current board committees are:

Holdings executive committee

The holdings executive committee is empowered and responsible for implementing the strategies approved by the Discovery board and for managing the affairs of Discovery. The holdings executive committee is chaired by the chief executive officer and meets weekly.

The various business units, including the offshore operations, also have executive committees. All the executive committees meet weekly except for PruHealth which currently meets every second week. Feedback on the activities of each business unit is given at the weekly meetings of the holdings executive committee.

Audit and risk committee

Discovery is exposed to risk through the operation of its various businesses.

The board of Discovery is responsible for overseeing business performance and risk management activities. The board has support for these tasks from the audit and risk committees and their sub-committees.

The responsibilities of the audit and risk committee are:

- to review integrity of the company's financial statements and recommend their approval to the board
- to develop, implement and monitor processes for compliance with legal and regulatory requirements
- to review and confirm the external auditor's qualifications and independence and to evaluate their performance
- to evaluate, monitor and manage the performance of the company's internal audit function
- to maintain transparent and appropriate relationships with the external auditors and to set the principles for recommending the use of external auditors for non-audit services
- to review the scope, quality and cost of the statutory audit
- to evaluate, monitor and manage the efficiency of the company's risk management process
- to review the processes to safeguard the assets of the company
- to monitor the effective operation of systems and business processes.

The audit and risk committee meets four times each year. The executive management team and representatives of the external audit and internal audit teams also attend these meetings.

The board recognises the need for members of the actuarial committee to attend the audit and risk committee meetings and vice versa. Mr AB Rayner, the independent chairman of the actuarial committee, attends the audit and risk committee meetings by invitation.

The members of the audit committee are Mr AL Owen (chairperson), Ms SE Sebotsa and Ms SV Zilwa.

Corporate governance (continued)

During the past financial year, the attendance at audit and risk committee meetings was as follows:

	Aug 2008	Nov 2008	Feb 2009	May 2009
AL Owen (Chairperson)	√	√	√	√
SE Sebotsa	√	√	√	√
SV Zilwa	√	√	√	√

Individual risk committees for each business unit have been set up as sub-committees of the audit and risk committee. Each risk committee meets monthly and the CEOs of the business units, members of its executive committee and key risk management stakeholders from compliance and internal audit attend these meetings. The main objective is to develop, implement and monitor processes for the appropriate identification and control of key financial and non-financial risks using the enterprise-wide risk management framework.

The divisional risk committees are responsible for:

- receiving and evaluating reports on the risk profile for the business according to severity, likelihood and the current effectiveness of control measures of the major risks
- developing any plans to address any risks where further control improvements are necessary
- implementing the risk management strategies
- implementing risk control action plans
- assessing the results of internal and external audit assessments and implementing recommendations.

Actuarial committee

The responsibilities of the actuarial committee are:

- to consider the financial soundness valuation results of Discovery, including overall methodology and assumptions used to value the assets and liabilities of the Group and the overall checks and controls applied by the statutory actuary
- to consider the embedded value results of Discovery, including the overall methodology and assumptions used in the embedded value calculation, as well as the overall checks and controls applied by the responsible actuary
- to review the external disclosure of the embedded value results of Discovery
- to make sure that, from an actuarial perspective, Discovery complies with all statutory requirements and international best practice
- to consider the capital position of Discovery Life
- to make sure the necessary processes and forums are in place to enable the statutory actuary to decide on the actuarial soundness of new products and revisions of existing products
- to review all reinsurance arrangements whether acting as reinsurer or reinsured.

The actuarial committee met six times during the year. In addition two informal meetings were held to discuss specific matters. The chief financial officer, the external auditors, the external and the internal actuaries for Discovery Health, Discovery Life, Destiny Health and PruHealth attend as required. The chairperson of the audit and risk committee attends the meeting by invitation.

Mr AB Rayner is a qualified actuary employed by the actuarial consultancy of Deloitte. Mr Rayner is not a member of the board. The board decided to appoint Mr Rayner as chairperson of the actuarial committee because of the highly technical nature of the activities of the committee. Mr Rayner is invited to attend the board meetings whenever matters relating to the actuarial committee are discussed.

During the past financial year the attendance of actuarial committee meetings was as follows:

	July 2008	Aug 2008	Dec 2008	Jan 2009	Feb 2009	June 2009
AB Rayner (Chairperson)	√	√	√	√	√	√
S Matisonn	√	√	√	√	√	√
HP Mayers	√	√	X	√	√	√
A Pollard	X	√	√	√	√	√
B Swartzberg	X	√	√	√	√	√
RD Williams	√	√	√	√	√	√
RE Lee*	n/a	n/a	n/a	√	√	√

** Mr RE Lee was appointed in January 2009.*

Mr RD Williams is the statutory actuary, appointed as required by the Long-term Insurance Act. He is not a board member.

Mr RE Lee was appointed to the actuarial committee in January 2009. Mr Lee is a qualified actuary residing in the UK and is not a member of the board. Mr Lee was invited to join the actuarial committee because of his expert knowledge of actuarial affairs in the UK where PruHealth operates.

The actuarial committee conducted an effectiveness evaluation during the year and at the same time used the opportunity to review and amend the charter to align it with best practice.

Remuneration committee

The main objective of the remuneration committee is to develop a rewards strategy. It is responsible for:

- evaluating the performance of the executive directors
- recommending remuneration packages for executive directors
- recommending policy about the bonus and share incentive schemes
- recommending the basis for non-executive directors' fees
- reviewing annual salary increases.

The remuneration committee met twice during the year and the attendance was as follows:

	Aug 2008	June 2009
NJ Dlamini (Chairperson to 30 November 2008)	√	n/a
MI Hilkowitz (Chairperson from 1 January 2009)	n/a	√
T Slabbert	√	√
M Olivier	√	√
P Cooper	√	√

Dr NJ Dlamini resigned as a director on 30 November 2008. The board appointed Mr MI Hilkowitz to replace her as the chairperson of the remuneration committee.

Mr M Olivier is an independent remuneration expert and the board appointed him to the remuneration committee to bring the required expertise to the meetings. Mr Olivier is not a board member.

The CEO, CFO, the head of HR and the chairman of the Internal Remuneration Committee attend the meetings by invitation.

Executive directors are not involved in setting their own remuneration.

Details of the respective directors' remuneration for the year under review are in the Directorate section.

Corporate governance (continued)

Transformation committee

The main objectives of the transformation committee are to develop, implement and monitor processes for compliance with both the spirit and letter of transformation in South Africa. Compliance will be measured through an agreed scorecard and any other measures that apply to the charters and the Department of Trade and Industry's Codes of Good Practice.

The committee met three times during the year. The CEO and the CEOs of the business units, the head of HR and the CFO form part of the committee.

	Sep 2008	Nov 2008	April 2009
NJ Dlamini (Chairperson to 30 November 2008)	√	√	n/a
TV Maphai (Chairperson from 1 January 2009)	n/a	n/a	√
SV Zilwa	√	√	√
T Slabbert	√	X	√
A Gore	√	X	√
J Robertson	X	√	√
HP Mayers	X	X	√
NS Koopowitz	√	√	√
B Swartzberg	X	√	√
A Pollard	√	√	X
K Kropman	√	√	√
R Farber	√	√	√

Dr NJ Dlamini resigned as a director on 30 November 2008. The board appointed Dr TV Maphai to take over as chairman from her.

Company secretary

MJ Botha is the company secretary. He is suitably qualified and has access to the Discovery secretarial resources.

The company secretary provides support and guidance to the board in matters about governance and ethical practices across Discovery. The directors all have unlimited access to the advice and services of the company secretary. The directors can also seek independent professional advice to help them with their responsibilities. Discovery will pay for these costs. The company secretary ensures the proper administration of board and sub-committee proceedings.

The company secretary's other tasks include providing direction to the directors with regard to their responsibilities in the statutory environment and the non-dealing in company shares during restricted periods as prescribed by the JSE Limited requirements. A written notice is given to all Discovery directors and employees telling them they may not deal in shares during a restricted period. Restricted periods in share trading are from 1 January and 1 July, until the release of Discovery's interim and final results respectively. Closed periods will also apply during other price-sensitive transactions. A strict pre-approval policy and process is in place for all Discovery directors. All share transactions in Discovery shares by directors and the company secretary are disclosed to the JSE through the Stock Exchange News Service (SENS).

Code of conduct

Discovery requires high standards of business ethics, morals, honesty and integrity from all employees in the business operations of the Group. Discovery has a published code of conduct to which all directors and employees of the Group must adhere. All employees sign a declaration of adhering to Discovery's code of conduct. The code states Discovery's approach to conducting business ethically with full compliance and in the best interests of all stakeholders.

Discovery's Code of Conduct explains how the code applies and the general duties of directors and employees. It also states the rules that guide the code and how directors and employees should comply with the code in the following areas:

- personal behaviour
- disclosing information
- media relations
- conflict of interest
- gifts
- commission
- plagiarism and company assets
- proprietary interest
- network, internet and email
- gambling
- dress code
- alcohol and drugs
- compliance with governing laws and rules.

The code of conduct appears on the company's intranet site. Discovery also has a dedicated team that monitors the compliance of the Group's business operations. This division regularly interacts with all regulatory bodies to make sure Discovery conducts its business operations with full legal compliance.

Employees of Discovery also have access to a secure and confidential online and telephonic fraud reporting channel. Details of the reporting channel are available on Discovery's website and the company's intranet site.

Communication with stakeholders

The directors support the release of accurate information to Discovery's stakeholders. Discovery uses reports and announcements to all audiences and meetings with investments analysts and journalists. The website is also regularly updated. Stakeholders are encouraged to share their views with Discovery. Transparency and optimal disclosure is always the end goal in communication. Shareholders receive open invitations to attend the annual general meeting of the company and all directors are expected to be present at this meeting.

Going concern

The board is satisfied that Discovery has adequate resources to continue with its operations in the near future. Based on this view, Discovery's financial statements have been prepared on a going concern basis.

Auditor independence

The Discovery financial statements have been audited by the independent auditors PricewaterhouseCoopers Inc. The auditors for Destiny Health and PruHealth are Deloitte & Touche LLP and KPMG respectively. Discovery believes that the external auditors have followed the highest level of business and professional ethics. It believes that the external auditors have always acted with unimpaired independence.

Details of fees paid to the external auditors for audit services are disclosed in the Group's annual financial statements. Fees paid for non-audit services provided by the external auditors are disclosed in the financial statements. These fees have also been discussed by the audit committee.

Discovery Invest combines the skill and ability of the asset management industry with the product innovation capability of Discovery. Launched in 2007 at a time when markets globally hit a downturn, the company offers innovative and differentiated products that give investors unique protection from volatility and downside.

Discovery Invest's assets under management

reached R4.2 billion

Discovery Invest collaborates with

leading global and local asset managers

The Discovery Equity Fund and Discovery Flexible Property Fund rank among the year's

top performing funds in their categories

Supporting financial advisers

grew from zero to 2 500 since November 2007

Integration with Discovery Life and Invest saves investors between

40% and 100% on administration fees on endowments

Discovery Invest

Risk management policy

Risk management is an integral part of improved performance, growth and sustainable value creation

The Discovery Group has adopted a common and integrated approach to the management of risk so that knowledge and experience is shared and risk management becomes embedded in all activities.

Effective risk management reduces uncertainty giving more confidence in reducing threats and pursuing opportunities and enabling Discovery to be more decisive in pursuing corporate strategy, while taking into account the risk appetite of the organisation.

An appropriate balance will be maintained between risk and reward giving full and due consideration to the legitimate and fair expectations of all stakeholders, resource constraints and sustainable development.

The board is accountable for the policy. The chief executive officers and executive management teams are responsible for the management of strategic, operational, financial and environmental risks; and implementing this policy through a common and integrated enterprise risk management framework.

The enterprise risk management framework and programme aims to:

- align strategy, work processes, people, technology and knowledge
- protect the reputation and brand name of Discovery
- promote risk awareness by all managers and employees and improve risk transparency to stakeholders and shareholders
- maximise (create, protect and enhance) shareholder value by proactively managing risks that may impact on the achievement of objectives by exploiting opportunities that represent the greatest returns on investment
- continually monitor and report progress against risk management action plans
- improve ability to deliver high quality products and services and to compete globally
- support the business growth strategy and continuously monitor and effectively manage the strategic risks inherent in new investments and business
- implement a risk financing strategy and monitor the total cost of risk
- ensure that management understand and accept responsibility for managing any risks that may impact on their key performance areas or the achievement of objectives, and that all employees take responsibility for managing operational and financial risks inherent to their role and responsibility.

The realisation of this policy is achieved by the understanding, acceptance and implementation of an enterprise risk management framework and programme, which is reviewed on an ongoing basis so as to assure its efficiency and effectiveness. This framework has been aligned with best risk management practice.

This policy is applicable to the entire Discovery Group, including subsidiary companies and investments where Discovery assumes management responsibility.

The board reviews this policy annually.

Governance structures

The governance structure of Discovery is illustrated in the diagram alongside:

The responsibility for the deployment of Discovery's framework has been delegated to three central functions:

- Group risk management ("GRM")
- Group compliance ("GC")
- Group internal audit ("GIA")

Within Discovery's risk management methodology the three central functions collectively establish the infrastructure and develop the process of risk management within the Discovery Group. It is then the responsibility of GRM and GC to assess business risks, develop risk management strategies, design and implement controls, and monitor performance of controls. GIA provides the independent assessment of whether this process of risk management is successful. Risk management controls and processes are improved based on past experience and proposals from GIA.

Governance structures

Board

Discovery Group audit and risk committee

- Ensure integrity, reliability and accuracy of accounting and financial reporting systems.
- Ensure appropriate systems are in place for monitoring risk, control and compliance with the law and codes of conduct.
- Evaluate the adequacy and effectiveness of the risk management, internal audit and compliance processes.
- Review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors.
- Consider the annual financial statements for approval by the board of directors.

Discovery Group actuarial committee

- Consider the financial soundness valuation results of Discovery.
- Consider the embedded value results of Discovery.
- Review the external disclosure of the financial soundness valuation results and the embedded value results of Discovery.
- Ensure from an actuarial perspective, Discovery complies with all statutory requirements and adheres to international best practice.
- Consider the capital position of Discovery.
- Ensure that the necessary processes and forums are in place to enable the statutory actuary to ensure the actuarial soundness of new products as well as revisions of existing products.
- Review all reinsurance arrangements.

Divisional risk committees

Evaluate the adequacy and effectiveness of the risk management, internal audit and compliance processes.

Shareholders assets investments committee

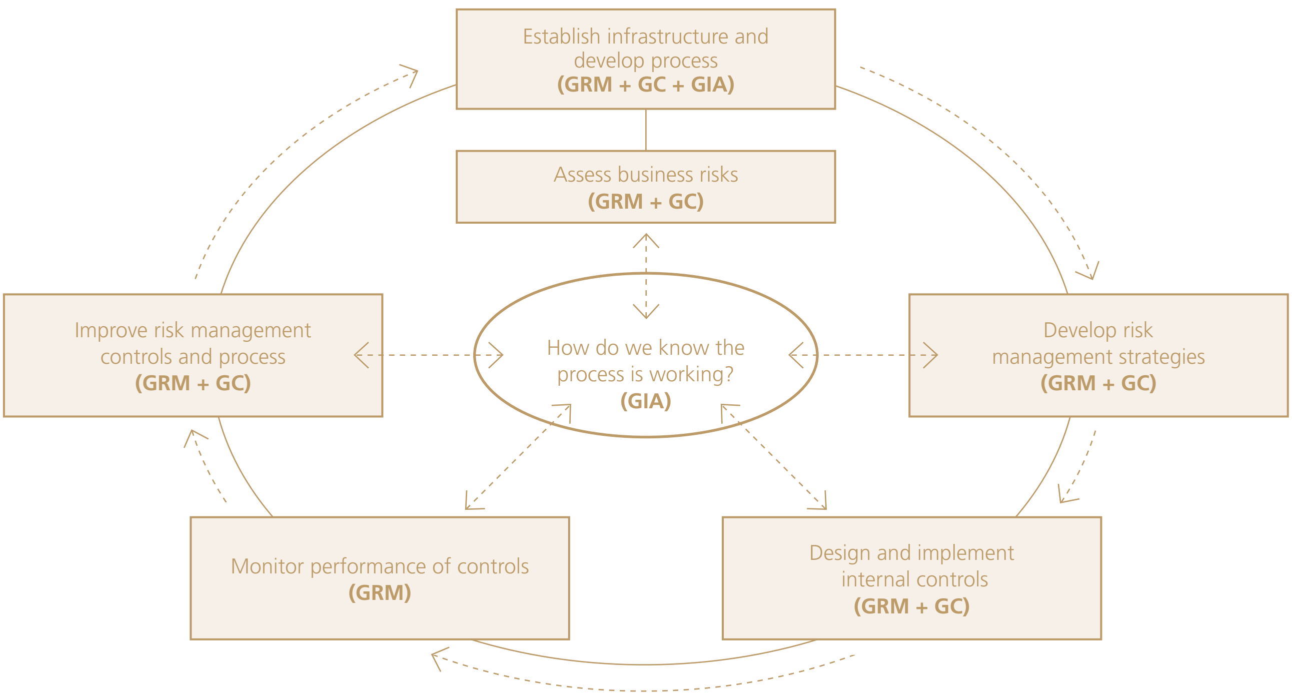
Determine investment philosophy and strategy for investment of shareholders assets in support of Group operations.

Independent risk management functions within Discovery

Asset and liability management	Operational risk management	Compliance	Internal audit	Legal	Finance

Risk management policy (continued)

Risk management methodology



The diagram above illustrates the risk management methodology and the integration between GRM, GC and GIA.

Two key components of the risk management process are risk identification and risk assessment. These processes help to ensure the appropriate focus on risks that are key to the achievement of the stated business objectives.

Risk identification and risk assessment are achieved through a facilitated workshop that includes executive and senior management. The workshop provides the opportunity for business to list their key risks and to rate the risks in terms of its impact on the day-to-day operations of the business and in terms of the likelihood of the risk manifesting given the existing controls. The combination of the impact and likelihood ratings provides a control effectiveness rating.

The GRM assurance plan ensures controls are established to mitigate risks to achieve an acceptable level of control. Where business believes risks are being controlled effectively, GRM performs risk assessments on these risks to give business an independent verification of the soundness of the controls.

Risk governance structures, roles and responsibilities

Board of directors

The board is accountable to all stakeholders for the total process of risk management, as well as for forming its own opinion on the effectiveness of the process. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the company.

The board sets the risk strategy and policies in consultation with the executive directors and senior management. These policies are clearly communicated to all employees to ensure that the risk strategy is incorporated into the language and culture of Discovery.

The board must decide Discovery's appetite or tolerance for risk – those risks it will take and those that it will not take in the pursuit to enhance shareholder value. The board has the responsibility to ensure that Discovery has implemented an effective ongoing process to identify risk, to measure its potential impact against a broad set of assumptions, and then to introduce measures to proactively manage these risks.

The board is responsible for ensuring that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken, at least annually, for the purpose of making its public statement on risk management. At appropriately considered intervals, the board receives and reviews reports on the risk management process in Discovery.

The board makes use of generally recognised risk management and internal control models and frameworks in order to maintain a sound system of risk management and internal control to provide reasonable assurance regarding the achievement of Discovery's objectives with respect to:

- efficiency and effectiveness of operations
- safeguarding of the company's assets (including information)
- compliance with applicable laws, regulations and supervisory requirements
- supporting business sustainability under normal, as well as adverse operating conditions
- reliability of reporting
- behaving responsibly towards all stakeholders.

The risk committee

As part of the process of continuous improvement and the embedding of risk management within Discovery the following primary functions are undertaken by the committee:

- establish and maintain an understanding of the risk universe within Discovery
- oversee the integration of risk management into the day-to-day operations and the business performance management system
- develop, implement and maintain effective processes and systems to achieve an appropriate balance between realising opportunities for gains while minimising adverse impacts
- maintain and update the risk register of Discovery on a regular basis
- satisfy the corporate governance reporting requirements as reflected in the King II report
- continuously monitor the Group's risk management and assurance efforts
- reports to the board and to management on the risk management activities and the extent of any actions to be taken by management to address areas identified for improvement.

The three lines of defence model operates as follows:

- staff in the first line of defence have direct responsibility for the management and control of strategic and operational risk (ie staff and management working within or managing operational business units and the board)
- staff in the second line of defence coordinate, facilitate and oversee the effectiveness and integrity of the Discovery Group's strategic and operational risk management framework (ie the risk committee and risk management division)
- staff in the third line of defence provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the strategic and operational risk management framework (ie internal and external audit).

Risk taxonomy

The core components of Discovery's risk profile are:

- strategic risk
- operational risk
- financial risk
- environmental risk

The risk profile assists the Group to proactively manage reputational risk and guide decision-making processes.

Strategic risk

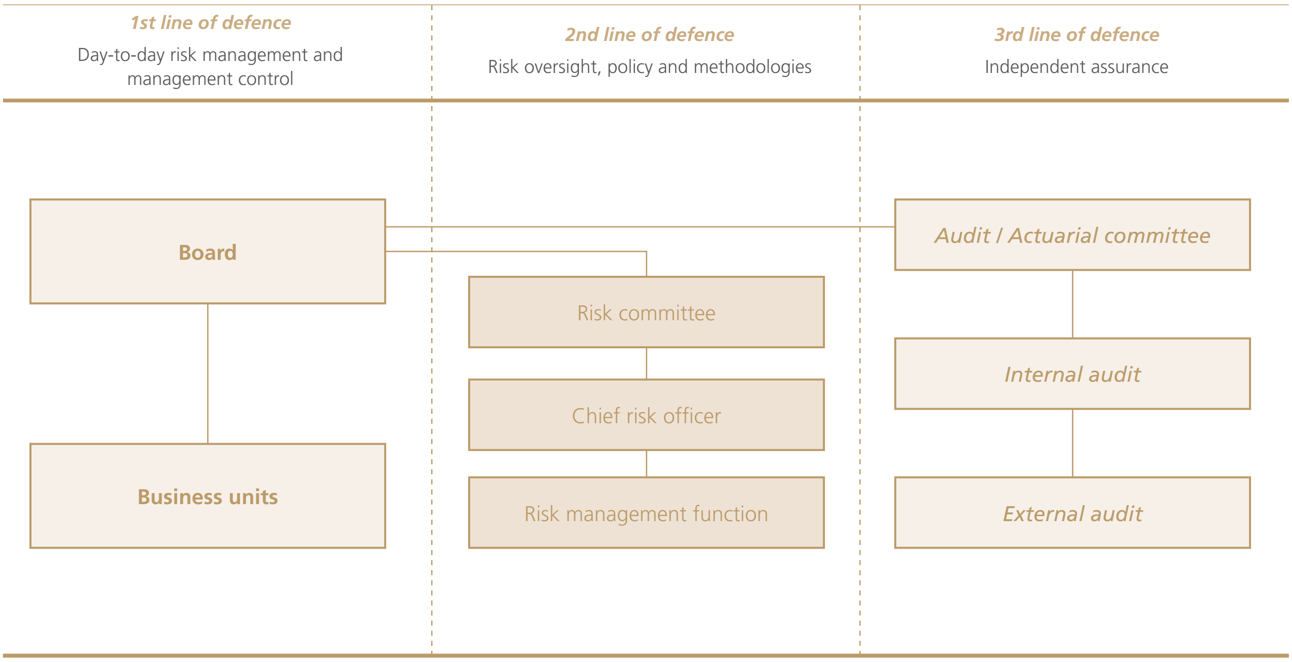
Strategic risk is defined as the current and prospective risk to earnings or capital arising from adverse business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is managed in terms of Discovery's enterprise risk management framework. Discovery recognises that risk management practices are an integral part of strategic planning. Strategic goals, objectives, corporate culture and behaviour are effectively communicated and consistently applied throughout the Group. Strategic direction and organisational efficiency are enhanced by the depth and technical expertise of management. Strategic initiatives are supported by sound due diligence and strong risk management systems.

Risk management policy (continued)

The 'three lines of defence' model

The Discovery Group has adopted a "three lines of defence" governance model, as illustrated and explained below:



Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk is managed in terms of Discovery's operational risk management framework, which is a sub-framework of Discovery's enterprise risk management framework. The operational risk management framework has as its objectives to:

- focus the business on the management of its key business success and risk factors in order to maximise the probability of achieving its stated objectives
- integrate the risk management process with the line management process ie, to reinforce the concept that line management is risk management
- outline a process that will result in concise, relevant, meaningful and value-adding risk reporting at all levels of the organisation that will support risk analysis.

Operational risk governance

Independent monitoring of operational risk occurs through a number of functions including Legal, Group Forensic Services, Group Compliance and Group Risk Management. Each of the functions has defined roles and responsibilities as well as performance objectives to ensure operational risk is effectively managed across Discovery. The management of operational risk is inherent in the day-to-day execution of duties by management of business entities.

Business continuity management

Business continuity management focuses on improving the resilience of Discovery's operations in order to withstand unexpected disruptions and disasters.

Business continuity management is an ongoing process of assessing needs, identifying weaknesses and single points of failure, developing strategies and keeping plans current and tested. The approach involves following a well-established annual cycle of actions, designed to ensure plans and associated measures are kept relevant and tested.

The status of readiness for disruptions is measured through quarterly reporting reflecting the organisation's compliance with the cyclical requirements, eg full testing of plans once per annum.

Legal risk

Legal risk is the risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed (implemented changes are dealt with as part of compliance risk).

Legal risk is managed through activities such as monitoring of new legislation, awareness initiatives, identifying significant legal risks and by managing and monitoring the impact of these risks through appropriate processes and procedures.

There were no significant legal risk breakdowns during the year.

Information security

Information risk is defined as the possibility or chance of harm being caused to a business as a result of a loss of confidentiality, integrity or availability of information.

Discovery establishes appropriate good practice and control measures to protect the information assets and to ensure confidentiality, integrity and availability of Discovery's information.

The information security policy is used as:

- the definition of the objectives for managing information security
- the outline of the processes that need to be addressed across Discovery in terms of information security.

Compliance risk

Compliance risk is the risk of legal or regulatory sanction, material financial loss or loss to reputation that may be suffered as a result of failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct.

Compliance officers support the business divisions to identify and manage their compliance risks to help find solutions to compliance risk issues and to provide a professional compliance, risk analysis, control, reporting and monitoring service.

Fraud and security risks

Discovery is committed through policies and actions, in striving towards an environment that safeguards its customers, staff and assets against the risk of fraud.

Discovery has a code of expected conduct that applies to all staff and various mechanisms to create anti-crime awareness, as well as mechanisms that assist in the detection of and formal prosecution of all offenders.

Discovery's joint venture with Prudential plc that incorporates PruHealth and PruProtect, follows the successful Discovery business model in the UK health and life assurance market. PruHealth's product leadership and the integration capability of Vitality set the company apart and position it well to take advantage of significant market opportunities in the UK. PruProtect follows a clear strategy of product leadership and innovation and a high-advice capability to offer clients more value.

PruHealth grew the number of lives covered by

20% to 212 000 lives

PruHealth is ranked

5th in the UK's private medical insurance market

Vitality and future integration with PruProtect, gives PruHealth significant

product differentiation

PruProtect continues to build its

franchise distribution capability

PruProtect grew new business by

320%

PRU HEALTH

PRU PROTECT
It pays to be healthy

Sustainability report

Discovery – working towards a sustainable business for the future

"We have the opportunity to help grow and nurture South Africa's healthcare system, extend access to care, put consumers in charge of their financial protection and encourage a healthy lifestyle in our communities."

Executive summary

Our approach to a sustainable business

Discovery operates in some of the most complex industries in areas of absolute need where consumers traditionally mistrust products and services. We face challenges that not only impact the sustainability of our business, but a larger economic system. These challenges, along with our scale and reach, also present opportunities to structurally change the industries in which we operate, for the benefit of consumers and our communities.

We have the opportunity to help grow and nurture South Africa's healthcare system, extend access to care, put consumers in charge of their financial protection and encourage a healthy lifestyle in our communities. In each case, we believe our approach to a successful business also benefits our stakeholders – this is because our business strategy is built around our responsibility towards all our stakeholders.

Our key impacts

Customers	For our customers we provide products and services in areas of critical need. Healthcare and financial protection are not only key areas for individuals, but also for the sustainable development of communities.
Industry	In our respective industries, we play a leadership role in driving change and shaping the future of these industries and systems. In healthcare, we impact the lives of more than two million people and their healthcare professionals.
Community	15 years into democracy, South Africa still has one of the most unequal societies in terms of quality of life, per capita income and access to services such as healthcare. Although we operate in the private healthcare industry, we see it as our responsibility to help build healthcare infrastructure in communities who need it.
Contribution to economic development in South Africa	Our responsibility as a large corporate in the South African economy is to contribute to the government's goal of achieving a more balanced society. Our contribution to economic development in South Africa helps to transform our society and include more South Africans from previously disadvantaged communities in the economy. Our partnerships with suppliers and support for SMEs, as well as attracting and retaining black talent in our employee pool, are important elements of our economic contribution.
Employees	We impact the lives of over 5 000 employees who work for Discovery. Our employees are central to our success as we rely on their talent, drive and innovative ideas to ensure our company's success.

Our key challenges

Access to healthcare	Access to healthcare remains a challenge, not only in South Africa, but also globally. Our challenge as a private healthcare funder is to give our members access to the latest medical technology and treatments, and to also grow the number of South Africans who can access private healthcare.
Containing costs of healthcare	Medical inflation increases each year at a rate higher than consumer price inflation. Our challenge is to balance the needs of members to be able to access private healthcare while at the same time keeping contributions affordable and sustainable.
Capacity-building in our healthcare industry	South Africa's healthcare sector is severely under-resourced, especially in the public sector with shortages in all areas of speciality, as well as in Academic Medicine. The skills shortage impacts the sustainability of our business, industry and healthcare sector and is therefore a challenge for Discovery.

Sustainability report (continued)

Our key achievements

Solid risk management	The Discovery Health Medical Scheme's credit and risk management rating was upgraded to an AA+ by international credit rating agency, Global Credit Rating. This is the highest credit rating in the industry. During a period characterised by economic uncertainty, Discovery Health added almost R1 billion to members' reserves. The Scheme also succeeded in growing its membership at the same time, the only scheme in the industry that has been able to successfully grow membership and its solvency ratio.
Sustainable products and services	Discovery Health continues to deliver sustainable products and services with a solid financial performance and risk management. The scale of Discovery Health's network arrangements has expanded, significantly reducing the amount of co-payments members have at GPs and specialists. Discovery Health's GP Network now covers nearly 80% of members and payment arrangements with specialists grew to 85%. Benefits per member have grown at 10% every year.
Innovation that impacts customers and society	Discovery Vitality forms the foundation of Discovery's product integration capability. It enables Discovery to give consumers more value and is a unique point of differentiation for us. An example of how Vitality provides integration benefits is the Discovery Life Cover Integrator that enables policyholders to buy additional life cover of either 20% or 40% more at a premium saving of 50%. The level of Integrated Cover may fluctuate yearly depending on a member's engagement in Vitality. This is significant when viewed against the backdrop of ASISA's estimate that South Africans are underinsured by as much as R10 trillion. During the year under review, Discovery Vitality also launched the HealthyFood™ benefit that saves consumers up to 25% on 6 000 HealthyFood™ products at Pick n Pay. At the time of writing the report, 125 000 Vitality members have activated the benefit and are buying healthier food options. This benefit provides further opportunities for product integration across Discovery's product range.
Capacity-building in the healthcare industry	The Discovery Foundation has made its third set of awards during the past year, bringing to R37 million its investment in healthcare education for the public sector.
Industry awards	During the past year, Discovery Health and Discovery Life were voted the top medical aid and life assurance brands in the business-to-business categories of the annual Sunday Times Top Brands survey. Discovery was also voted as the industry winner in the 2009 Ask Afrika Trust Barometer, an annual corporate reputation benchmark survey.

Our key priorities for the next year

Our customers	Our priority is to continue delivering sustainable products to our customers that will have a positive impact on their lives. For example, we have set specific goals to reduce the gaps in cover for members of Discovery Health while Discovery Invest and Life will continue to use the integration opportunities of Discovery Vitality to give customers more value and protection, especially during recessionary times.
Industry	As one of the industry leaders, Discovery Health will continue to engage with other stakeholders on the future of healthcare in South Africa. In terms of capacity-building, the Discovery Foundation and Discovery Fund will continue to develop and build healthcare resources in the public healthcare sector.
Employees	Our employees are central to our future success. It remains one of our priorities to foster a culture of innovation, performance and inspiring leadership.

More information about Discovery and our reports on our social, economic and environmental performance are available on our website at www.discovery.co.za. Go to Investor Relations and Sustainability.

"We impact the lives of over 5 000 employees who work for Discovery. Our employees are central to our success as we rely on their talent, drive and innovative ideas to ensure our company's success."

Annual financial statements

for the year ended 30 June 2009

Ten-year review

for the year ended 30 June

	Pre-IFRS										
	Group 2000	Group 2001	Group 2002	Group 2003	Group 2004	Group 2005	Group 2006	Group 2007	Group 2008	**Group 2009**	Compound growth %
New business API (R million)	1 322	2 177	2 339	3 148	3 213	4 341	4 426	4 834	5 144	**5 866**	18%
Gross inflows under management											
Gross inflows under management	3 559	5 494	7 739	10 946	14 345	17 295	20 427	23 911	28 006	**33 591**	28%
Less: collected on behalf of third parties	1 310	2 117	3 877	7 190	10 647	13 266	14 988	17 338	20 390	**24 576**	39%
Less: money market contributions	221	559	357	–	–	–	–	–	–	**–**	
Gross income of Group	2 028	2 818	3 505	3 756	3 698	4 029	5 439	6 573	7 616	**9 015**	18%
Income statement extracts											
Profit from operations	122	216	318	460	829	923	1 263	1 510	1 735	**1 963**	36%
– Local operations	155	277	426	629	961	1 151	1 547	1 849	2 187	**2 406**	
– Foreign operations	(33)	(61)	(108)	(169)	(132)	(228)	(284)	(339)	(452)	**(443)**	
Headline earnings	51	130	236	356	406	509	531	886	934	**1 238**	43%
Abnormal items*	–	–	(45)	(84)	–	–	161	34	23	**13**	
Headline earnings before abnormal items	51	130	191	272	406	509	692	920	957	**1 251**	43%
Diluted headline earnings per share before abnormal items	14.3	33.6	48.1	65.7	77.4	94.2	126.4	168.4	174.7	**226.5**	36%
** Abnormal items include BEE expenses*											
Balance sheet extracts											
Total assets	1 298	2 082	2 308	3 349	4 032	5 334	6 851	8 903	11 038	**14 931**	31%
Shareholders' funds	406	576	928	1 164	2 503	3 290	4 212	5 362	6 164	**7 013**	37%
Embedded value											
Embedded value (R million)	2 114	3 156	3 321	4 928	6 832	9 173	10 587	14 166	17 881	**20 040**	28%
Diluted embedded value per share (R)	5.50	8.15	8.26	12.20	12.89	16.93	19.47	25.64	32.05	**35.83**	23%
Key ratios											
Return on average equity (%)	21	30	38	39	24	20	18	22	20	**18**	
Return on average assets (%)	5	8	11	13	11	12	11	14	12	**9**	
Capital adequacy requirement (times)	–	–	–	–	10.2	12.9	14.0	10.5	7.0	**7.7**	
Exchange rates											
Rand/US$											
– closing	6.77	8.07	10.31	7.56	6.18	6.68	7.13	7.07	7.82	**7.73**	
– average	6.40	7.42	9.19	8.89	6.77	6.19	6.44	7.21	7.30	**8.88**	
Rand/GBP											
– closing	10.26	11.35	15.75	12.47	11.20	11.97	13.15	14.17	15.60	**12.71**	
– average	9.88	10.81	14.81	14.12	11.83	11.50	11.45	13.99	14.66	**14.08**	
Share statistics											
Number of ordinary shares in issue											
– weighted average (000's)	378 285	388 417	390 411	391 714	504 051	519 188	528 946	536 560	543 016	**541 043**	
– diluted weighted average (000's)	386 970	400 047	414 701	430 963	536 025	553 227	574 871	546 579	547 530	**552 591**	
– end of period (000's)	384 979	386 026	390 625	397 800	532 416	548 957	591 953	591 953	591 953	**591 953**	
Price/diluted headline earnings (times)	78.7	32.5	12.2	8.7	16.6	23.4	20.7	17.9	12.7	**11.5**	
Share price (cents per share):											
– high	1 310	1 300	1 140	900	1 425	2 550	2 700	3 350	3 047	**2 840**	
– low	745	1 000	640	590	695	1 210	1 825	2 020	2 060	**1 814**	
– closing	1 125	1 090	720	745	1 283	2 200	2 010	2 903	2 170	**2 584**	
Market capitalisation (R million)	4 331	4 207	2 812	2 964	6 831	12 077	11 898	17 184	12 845	**15 296**	

Report of the financial director

for the year ended 30 June 2009

Discovery Holdings Limited is listed in the life insurance sector of the JSE Limited. The consolidated figures in this report include the operations of Discovery Health, Discovery Life, Discovery Vitality, the Destiny group of companies, PruHealth and PruProtect. All operations take place within 100% – owned subsidiaries, with the exception of the Destiny group of companies in which Discovery Holdings Limited has a 99% interest (with management owning the balance) and PruHealth and PruProtect in which Discovery Holdings Limited has a 50% interest held indirectly via a wholly-owned subsidiary, Discovery Offshore Holdings Limited. A comprehensive group structure is set out on pages 2 and 3.

Basis of preparation

The attached annual financial statements relate to the Discovery Holdings Group of companies ("Discovery"). In order to provide a better understanding of Discovery's results, the results have been provided on a segmental basis on pages 108 and 109. The segments into which Discovery has been divided are:

Health South Africa – administers and provides managed care services to medical schemes and renders administration services to other business segments in the Group.

Health United States of America – offers consumer-engaged private medical insurance products to employer groups and individuals in the United States of America.

Health United Kingdom – offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom, together with the Prudential Assurance Company Limited.

Life South Africa – offers a range of insurance, financial and investment solutions to the Group's clients against the financial impact of lifestyle-changing events.

Life United Kingdom – offers a risk-only life assurance product to both employer groups and individuals in the United Kingdom, together with the Prudential Assurance Company Limited.

Vitality – offers health and lifestyle benefits with selected partners to the Group's clients.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of Discovery.

Accounting policies

The accounting policies applied are in accordance with International Financial Reporting Standards (IFRS), as well as the South African Companies Act 61 of 1973, as amended. These accounting policies are consistent with those applied in the previous financial reporting period.

Review of the group results

Discovery continued to produce strong, consistent earnings growth, despite significant investment in new products and opportunities. Continued growth in Discovery Health, coupled with strong, high-quality new business growth in Discovery Life and a reduction in losses in PruHealth, supported 32% growth in operating profits (excluding investment income) to R1 674 million. Inclusion of the investment income and a higher tax charge resulted in a 31% growth in headline earnings (excluding the impact of the BEE transaction) to R1 251 million for the year ended 30 June 2009.

Report of the financial director (continued)

for the year ended 30 June 2009

New business annualised premium income and gross inflows under management include flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.

New business annualised premium income excluding Destiny increased 20% for the year ended 30 June 2009.

New business annualised premium income

R million	**June 2009**	June 2008	% change
Discovery Health	**3 039**	2 731	11
Discovery Life	**1 920**	1 407	36
Discovery Vitality	**152**	103	48
PruHealth	**559**	533	5
PruProtect	**105**	25	320
New business API excluding Destiny	**5 775**	4 799	20
Destiny Health	**91**	345	(74)
New business API of Group	**5 866**	5 144	14

New business in Destiny Health relates to new members joining existing business in the current year.

Gross inflows under management, which in our belief is the most appropriate measure of the scale of our operations, has grown by 18% per annum compounded over the past 5 years, to R33.6 billion in 2009. This is driven by growth in all business areas.

Gross inflows under management

R million	**June 2009**	June 2008	% change
Discovery Health	**23 853**	21 118	13
Discovery Life	**3 675**	3 118	18
Discovery Invest	**3 290**	903	264
Discovery Vitality	**936**	813	15
Destiny Health	**411**	999	(59)
PruHealth	**1 366**	1 040	31
PruProtect	**60**	15	300
Gross inflows under management	**33 591**	28 006	20
Less: collected on behalf of third parties	**(24 576)**	(20 390)	21
Discovery Health	**(21 077)**	(18 637)	
Discovery Invest	**(2 646)**	(903)	
Destiny Health	**(140)**	(323)	
PruHealth	**(683)**	(520)	
PruProtect	**(30)**	(7)	
Gross income of Group	**9 015**	7 616	18

The following table shows the main components of the increase in Group operating profit for the year:

Earnings source

R million	June 2009	June 2008	% change
Discovery Health	**1 028**	891	15
Discovery Life	**1 184**	989	20
Discovery Vitality	**40**	49	(18)
PruHealth	**(103)**	(155)	34
Operating profit from established businesses	**2 149**	1 774	21
Discovery Invest	**(122)**	(157)	22
PruProtect	**(156)**	(134)	(16)
Destiny Health	**(173)**	(192)	10
Group operating profit before premium deficiency reserve and corporate costs	**1 698**	1 291	32
Transfer to premium deficiency reserve	**(21)**	–	
Corporate costs*	**(3)**	(18)	83
Profit from operations before investment income, impairment and BEE expense	**1 674**	1 273	32

**Corporate costs include costs relating to the odd-lot offer in the current year and the FirstRand unbundling in the prior year.*

Reinsurance contracts

Included in cash and cash equivalents at 30 June 2009 is the balance of R750 million received in terms of a quota share treaty entered into by Discovery Life in December 2008. This treaty effectively reinsures approximately 15% of the negative reserve (assets arising from insurance contracts) as at that date. The liability in respect of this treaty has been included in liabilities arising from reinsurance contracts. This amount has been shown as a receipt arising from reinsurance contract on the face of the income statement and the full amount has been transferred out through the change in liabilities under reinsurance contracts.

In December 2008, Discovery Life also entered into a reinsurance contract to reinsure lapse risk (for the next five years) of up to a further 22% of the negative reserve in force as at that date. This reinsurance contract allows Discovery Life to sell guaranteed endowments supported by this asset.

Taxation

All South African entities are in a tax paying position. South African income tax has been provided at 28% (2008: 28%) and secondary tax on companies at 10% in the financial statements and embedded value statements.

Discovery obtained no tax relief for the PruHealth losses for the year ended 30 June 2009. For the six-month period ending 31 December 2007, Discovery obtained tax relief for 100% of the PruHealth losses as this tax asset was ceded to Prudential Assurance Company in the UK ("Prudential"). R26 million was included in finance charges relating to a settlement discount on early payment by Prudential for these tax losses in that period.

Tax relief is obtained for 100% of the PruProtect losses through Prudential.

Share-based payments

The issue of 38.7 million shares by Discovery in terms of its BEE transaction in 2005 has been accounted for in terms of IFRS2. These shares are not accounted for as issued in the consolidated accounts of Discovery but rather as a share option transaction. These shares have been considered in the calculation of diluted HEPS and diluted EPS.

The BEE transaction has resulted in a charge to the income statement of R13 million in the year ended 30 June 2009 (2008: R23 million) in accordance with the requirements of IFRS 2.

An additional R60 million (2008: R19 million) in respect of options granted under employee share incentive schemes has been expensed in the income statement for the year in accordance with the requirements of IFRS 2.

The Group entered into transactions to hedge its exposure in the phantom share scheme related to changes in the Discovery share price. As at 30 June 2009, approximately 51.4% (2008: 66.6%) of this exposure was hedged.

Report of the financial director (continued)

for the year ended 30 June 2009

Cash flow from operations

The following table shows the cash generated or utilised by each of the Group's operations.

Cash generated by operations net of policyholder inflows

R million	June 2009	June 2008	% change
Discovery Health	**914**	1 004	(9)
Discovery Life and Discovery Invest	**717**	(47)	>100
Discovery Vitality	**102**	90	13
Destiny Health	**(257)**	(223)	(15)
PruHealth	**(236)**	(339)	30
Holdings	**139**	(20)	>100
Cash generated by operations including working capital changes	**1 379**	465	>100

Discovery Life includes R750 million received from reinsurers in terms of the quota share treaty entered into in December 2008.

Ten-year review

The ten-year review of key financial indicators is set out on page 60. It is pleasing to note that profit from operations has increased by a compound growth of 36% per annum since 2000 from R122 million to R1 963 million due to the strong growth in all of Discovery's operations.

Balance sheet

Discovery's shareholder funds are invested into the different business operations as follows:

R million	June 2009	June 2008	% change
Health South Africa and Vitality	**789**	679	16
Life	**5 698**	5 057	13
Destiny	**92**	33	179
PruHealth	**390**	446	(13)
PruProtect	**(192)**	(105)	(83)
Consolidation entries	**236**	54	
	7 013	6 164	14

The shareholders funds invested in Health South Africa and Vitality will be used to fund future cash requirements of the international operations and dividends of the Group. The shareholders funds in Life will be used to support future growth of this business segment.

The increase in the assets arising from insurance contracts of R1 284 million is as a result of the significant increase in profitable new business written by Discovery Life.

The deferred tax liability is primarily attributable to the application of the FSB directive 145. This directive allows for the zeroing of the negative life reserve on a statutory basis. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base. This is disclosed as a regulatory change in the embedded value statement.

Capital management

Discovery follows the philosophy of investing the Group's capital in business projects which offer strong organic growth in earnings and maximise the return on capital over the long term.

Of the Group entities, Discovery Life Limited, Destiny Health Insurance Company Inc. ("DHIC") and PruHealth are regulated and have minimum capital requirements.

The capital adequacy requirements of Discovery Life was R230 million (2008: R174 million), and the qualifying excess of assets over liabilities is R1 760 million (2008: R1 211 million). This results in a capital adequacy cover of 7.7 times (2008: 7.0 times).

DHIC is required to hold capital equal to one quarter of its annualised premium income. As at 30 June 2009, DHIC held approximately US$2.5 million (2008:US$4.5 million) for this purpose.

The capital requirements of PruHealth have been funded equally by each of the joint venture partners. As at 30 June 2009, PruHealth was required to hold GBP12.9 million (2008: GBP18.2 million) in capital. At that date, PruHealth held GBP68.9 million (2008: GBP62.5 million) in available capital to meet this requirement.

Dividend policy

Dividends paid in 2009 totalled R269 million and comprised of a final dividend of 23 cents per share paid on 20 October 2008 and an interim dividend of 25,5 cents per share paid on 23 March 2009.

In determining the appropriate dividend, the directors set a policy that allows the Group to maintain paying dividends in the foreseeable future. The directors have determined that it is appropriate to pay dividends based on a dividend cover of 4.5 times based on maintainable earnings.

Dividend Declaration:

The directors are of the view that the Group is sufficiently capitalised at this time and the board has declared a final dividend of 33 cents per share.

Report of the financial director (continued)

for the year ended 30 June 2009

Embedded value

The embedded value of Discovery, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business less an allowance for the cost of capital, was R20 billion at 30 June 2009 (2008: R17.9 billion). The embedded value calculation includes the shareholders' net assets at the values reflected in the consolidated balance sheet on page 104.

The analysis of the main components of the Group embedded value is set out below:

	Health and Vitality	Life	PruHealth	Other	Total
Value of in-force business at 30 June 2008	7 413	8 042	313	–	15 768
Expected return (in-force business)	896	956	29	–	1 881
Release of profits (in-force business)	(913)	(966)	47	–	(1 832)
Value of new business as at point of sale	275	806	23	–	1 104
Expected return (new business)	24	94	4	–	122
Release of profits (new business)	149	1 176	106	–	1 431
Experience variances	425	108	70	–	603
Methodology changes	(150)	(1 530)	(308)	–	(1 988)
Change in STC costs	45	0	1	–	46
Foreign exchange rate movements	–	–	(54)	–	(54)
Value of in-force business at 30 June 2009	**8 164**	**8 686**	**231**	**–**	**17 081**
Shareholders' funds per Balance Sheet	789	5 698	390	136	7 013
Adjustment for assets under insurance contracts and deferred acquisition costs	–	(3 984)	(28)	–	(4 012)
Run-down costs for Destiny Health	–	–	–	(42)	(42)
Embedded value at 30 June 2009	**8 953**	**10 400**	**593**	**94**	**20 040**

More detail on the components of each of these items, including the methodology and assumptions made in calculating the embedded value of Discovery, can be found in the Embedded Value Statement on pages 75 to 84.

Reconciliation of embedded value earnings

The movement in the embedded value in the year under review can be reconciled to the accounting earnings of the Group as follows:

R million	Year to 30 June 2009	Value of in-force less cost of STC	Cost of capital	Impact on income statement	Change in adjustment to share-holders' funds	Statement of changes in equity
Total profit from new business (at point of sale)	**1 104**	1 166	(62)	–	–	–
– Health and Vitality	**275**	286	(11)	–	–	–
– Life and Invest	**806**	840	(34)	–	–	–
– PruHealth	**23**	40	(17)	–	–	–
Profit from existing business Expected return	**2 027**	1 600	3	424	–	–
– Health and Vitality	**948**	153	3	792	–	–
Expected transfer from VIF & VNB to net worth	**28**	(764)	0	792	–	–
Unwinding of the risk discount rate	**920**	917	3	0	–	–
– Life and Invest	**1 047**	1 260	0	(213)	–	–
Expected transfer from VIF & VNB to net worth	**(3)**	210	0	(213)	–	–
Unwinding of the risk discount rate	**1 050**	1 050	0	0	–	–
– PruHealth	**32**	187	0	(155)	–	–
Expected transfer from VIF & VNB to net worth	**(1)**	151	3	(155)	–	–
Unwinding of the risk discount rate	**33**	36	(3)	0	–	–
Change in methodology and assumptions	**(705)**	(1 945)	(43)	1 283	–	–
– Health and Vitality	**(150)**	(157)	7	–	–	–
– Life and Invest	**(435)**	(1 462)	(68)	1 095	–	–
– PruHealth	**(120)**	(326)	18	188	–	–
Experience variances	**376**	634	(31)	(227)	–	–
– Health and Vitality	**446**	430	(5)	21	–	–
– Life and Invest	**4**	109	(1)	(104)	–	–
– PruHealth	**(74)**	95	(25)	(144)	–	–
Other new initiative costs	**(303)**	–	–	(451)	148	–
Acquisition costs	**(4)**	–	–	(4)	–	–
Foreign exchange rate movements	**(104)**	(64)	9	6	–	(55)
Cost of STC	**46**	46	–	–	–	–
Return on shareholders' funds	**(127)**	–	–	60	–	(187)
– Unrealised gain on investments and realised gain on investments transferred to income statement	**(187)**	–	–	–	–	(187)
– Health and Vitality investment income	**12**	–	–	12	–	–
– Life and Invest investment income	**29**	–	–	29	–	–
– PruHealth investment income	**19**	–	–	19	–	–
Share Based Payments	**0**	–	–	(18)	–	18
Change in adjustment to shareholders' funds	**0**	–	–	151	(151)	–
Embedded value earnings	**2 310**	1 437	(124)	1 224	(3)	(224)

Directors' responsibility statement

Directors' responsibility to the members of Discovery Holdings Limited and its subsidiaries ("Discovery")

The directors of Discovery are required by the Companies Act (Act 61 of 1973) as amended ("Companies Act"), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying annual financial statements, International Financial Reporting Standards have been used and reasonable estimates have been made. The annual financial statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The directors have reviewed Discovery's budget and flow of funds forecast for the year to 30 June 2010. On the basis of this review, and in light of the current financial position and available cash resources, the directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the annual financial statements.

The directors are responsible for Discovery's systems of internal control, which include internal financial controls in the various subsidiaries that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery maintains internal financial controls to provide assurance regarding:

- safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention and the overriding of controls. An effective system of control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of annual financial statements.

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

Discovery's external auditors, PricewaterhouseCoopers Inc, have audited the annual financial statements and their unqualified report appears on page 70.

The annual financial statements of Discovery for the year ended 30 June 2009, which appear on pages 71 to 73 and pages 85 to 182, have been approved by the board of directors on 1 September 2009 and are signed on its behalf by:

A Gore
Chief Executive Officer

R Farber
Financial Director

Certificate by the company secretary

It is hereby certified that, in terms of section 268G(d) of the Companies Act, that Discovery Holdings Limited has for the year ended 30 June 2009 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary

Report of the audit and risk committee

for the year ended 30 June 2009

To the members of Discovery Holdings Limited

The Discovery Holdings Limited Audit and Risk Committee ("the committee") comprises Mr AL Owen (chairman), Ms SE Sebotsa and Ms SV Zilwa (appointed 25 June 2009). Mr AL Owen and Ms SE Sebotsa are independent non-executive directors. Ms SV Zilwa is a non-executive director. The committee met four times during the past financial year and had a 100% attendance.

The committee also acted as the statutory audit committee of those public company subsidiaries that are required by South African legislation to have such a committee.

Separate meetings are held with management, external and internal audit representatives to discuss any problems and other matters. Besides these meetings, the head of internal audit and risk and the external auditors have unlimited access to the chairman of the committee.

Audit and risk committee responsibilities

The responsibilities of the audit and risk committee are:

- to review integrity of the company's financial statements and recommend their approval to the board;
- to develop, implement and monitor processes for compliance with legal and regulatory requirements;
- to review and confirm the external auditor's qualifications and independence and to evaluate their performance;
- to satisfy itself that the Group Financial Director has appropriate expertise and experience;
- to evaluate, monitor and manage the performance of the company's internal audit function;
- to maintain transparent and appropriate relationships with the external auditors and to set the principles for recommending the use of external auditors for non-audit services;
- to review the scope, quality and cost of the statutory audit;
- to evaluate, monitor and manage the efficiency of the company's risk management process;
- to review the processes to safeguard the assets of the company; and
- to monitor the effective operation of systems and business processes.

External auditor

The audit committee considered the matters set out in section 270A of the Companies Act, as amended by the Corporate Laws Amendment Act, and:

- nominated PricewaterhouseCoopers Inc. for appointment as external auditor of Discovery;
- satisfied itself with the independence and objectivity of the external auditors;
- approved the external auditors' fees and terms of engagement for the 2009 financial year; and
- after considering the nature and extent, approved the non-audit services.

Financial director

As required by the JSE Listings Requirement 3.84(h), the committee has satisfied itself that the Group Financial Director has appropriate expertise and experience.

Opinion

Based on the information and explanations given by management and discussions with the independent external auditor regarding the results of their audit, the committee is satisfied that there was no material breakdown in the internal accounting controls during the financial year under review.

The committee has evaluated the financial statements and Group financial statements of Discovery Holdings Limited for the year ended 30 June 2009 and, based on the information provided to the committee, considers that the Group complies, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, and International Financial Reporting Standards (IFRS).

The committee has recommended the financial statements to the board for approval. The board has subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.

AL Owen
Chairman

1 September 2009

Independent auditor's report

To the members of Discovery Holdings Limited

We have audited the Group annual financial statements and annual financial statements of Discovery Holdings Limited, which comprise the consolidated and separate balance sheets as at 30 June 2009, the consolidated and separate income statements, the consolidated and separate statement of changes in equity and consolidated and separate cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 71 to 73 and pages 85 to 182.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Holdings Limited as at 30 June 2009, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: **J Awbrey**
Registered Auditor

Johannesburg
1 September 2009

Directors' report

for the year ended 30 June 2009

The directors present their tenth annual report, which forms part of the audited financial statements of the company and of the Group for the year ended 30 June 2009.

Nature of business

Discovery Holdings Limited ("the company") is listed in the insurance sector of the JSE Limited and is the holding company of:

- Discovery Life Limited ("Discovery Life");
- Discovery Life Collective Investments (Proprietary) Limited;
- Discovery Life Investment Services (Proprietary) Limited;
- Discovery Life Nominees (Proprietary) Limited;
- Discovery Health (Proprietary) Limited ("Discovery Health");
- Vitality Healthstyle (Proprietary) Limited ("Vitality");
- Vitality Healthstyle Travel (Proprietary) Limited (dormant);
- Discovery Nominees (Proprietary) Limited (dormant);
- Destiny Health Inc. ("Destiny Health"), which is incorporated in the United States of America;
- Destiny Health Management Company LLC, which is incorporated in the United States of America;
- Destiny Health Insurance Company, which is incorporated in the United States of America;
- Destiny Health Administration Company (dormant), which is incorporated in the United States of America;
- Vitality Group Inc., which is incorporated in the United States of America;
- Discovery Offshore Holdings Limited, which is incorporated in England and Wales; and
- Prudential Health Holdings Limited ("PruHealth") which is incorporated in England and Wales. This company holds Discovery's interest in Prudential Health Limited and Prudential Health Services Limited.

Discovery Life is a long-term insurer in South Africa. Discovery Life offers a suite of risk benefit products and investment products in the South African market. Discovery Health is a specialised administrator offering various services to medical schemes, Discovery Life, Destiny Health and PruHealth. Vitality offers a rewards programme incentivising its members to lead healthy lives and rewarding lifestyles. Destiny Health provided health insurance products to employer groups and individuals in the USA. In February 2008, the exit of Destiny Health from the US retail insurance market was announced. The business will be run off over the next 6 months. Destiny will continue to market its Vitality product on a stand-alone basis to employer groups and health plans. Discovery has a 50% interest in Prudential Health Holdings Limited together with Prudential Assurance Company Limited. PruHealth provides and administers health insurance products to employer groups and individuals in the UK. PruHealth is also entitled to the profits or losses, assets and liabilities of PruProtect, a joint venture to provide consumer-engaged life insurance to clients in the UK on Prudential Assurance Company's licence.

Discovery Holdings and its subsidiaries are referred to herein as "Discovery". The subsidiaries are wholly-owned with the exception of Destiny Health in which Discovery has a 99.98% interest.

In addition to the above subsidiaries, Discovery consolidates unit trusts in which the Group has a greater than 50% economic interest resulting in effective control. The consolidated unit trusts are:

- Discovery 2010 Fund;
- Discovery 2015 Fund;
- Discovery 2020 Fund;
- Discovery 2025 Fund;
- Discovery 2030 Fund;
- Discovery 2035 Fund;
- Discovery 2040 Fund;
- Discovery Absolute Return Fund;
- Discovery Diversified Income Fund;
- Discovery Flexible Property Fund;
- Discovery Global Balanced Fund;
- Discovery Global Equity Feeder Fund; and
- Discovery Money Market Fund.

Directors' report (continued)

for the year ended 30 June 2009

General review

The financial position and results are reflected on pages 71 to 73 and pages 85 to 182. The Group's attributable share of profits and losses from subsidiary companies for the year ended 30 June is set out below:

R million	**Group 2009**	Group 2008	% change
Aggregate profits after taxation from local subsidiaries	**1 628**	1 586	3
Loss from Destiny Health net of minority share of loss	**(207)**	(191)	(8)
Loss from PruHealth after taxation	**(91)**	(140)	35
Loss from PruProtect after taxation	**(118)**	(99)	19
	1 212	1 156	5

Share capital

The authorised share capital is 1 000 000 000 ordinary shares of 0.1 cent per share. The issued share capital of the company at 30 June 2009 was 591 953 180 ordinary shares of 0.1 cent per share.

The staff share trusts' hold 2% of the share capital of the company for the benefit of trust participants.

Dividends

The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirements of Discovery Life as at 30 June 2009 was R230 million (2008: R174 million) and was covered 7.7 times (2008: 7.0 times).

Dividend declaration

An interim dividend of 25.5 cents per share (2008: 21.5 cents per share) was paid on 23 March 2009.

The board has declared a final dividend of 33 cents per share (2008: 23 cents per share) bringing the total dividend to 58.5 cents per share for the year (2008: 44.5 cents per share). The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 9 October 2009
– Date trading commences "ex" dividend	Monday, 12 October 2009
– Record date	Friday, 16 October 2009
– Date of payment	Monday, 19 October 2009

Share certificates may not be dematerialised or rematerialised between Monday, 12 October 2009 and Friday, 16 October 2009, both days inclusive.

Directorate and secretary

Details of the directors, their emoluments, participation in share incentive schemes and interests in the company are reflected on pages 178 to 181. Dr NJ Dlamini resigned as non-executive director of the board of Discovery with effect from 30 November 2008.

Mr Richard Farber was appointed as an executive director of the board of Discovery with effect from 1 July 2009.

Dr BA Brink, Mr P Cooper, Mr AL Owen and Ms T Slabbert retire by rotation at the forthcoming annual general meeting of shareholders and are eligible and available for re-election.

Mr MJ Botha continues in office as company secretary. His details are reflected on page 32.

Directors' interests in contracts

No material contracts involving directors' interests were entered into in the current year. All of the executive directors have signed restraints of trade which prevent them from competing with Discovery for one year after their employment with Discovery ends. The directors had no interest in any third party or company responsible for managing any of the business activities of Discovery.

Subsidiaries

Details of the company's subsidiaries are set out in note 1 to the Discovery Holdings Limited's company financial statements. During the year under review, no changes were made to the memorandum and articles of association of any of the subsidiary companies.

Borrowing powers

The directors may exercise all the powers of the company to borrow money. In terms of the articles of association, the borrowing powers of the company are unlimited. In terms of the Long-Term Insurance Act, 1998, Discovery Life may not encumber its assets or directly or indirectly borrow.

Auditors

It will be proposed at the annual general meeting of shareholders, that PricewaterhouseCoopers Inc. continue in office in accordance with section 270(2) of the Companies Act.

Assurance Report of the Independent Auditors on the consolidated Embedded Value of Discovery Holdings Limited and its subsidiaries

for the year ended 30 June 2009

To the directors of Discovery Holdings Limited

We have reviewed the Group consolidated embedded value of Discovery Holdings Limited and its subsidiaries ("Discovery") for the year ended 30 June 2009, as set out on pages 75 to 84, which has been prepared in accordance with the applicable guidelines of the Actuarial Society of South Africa, PGN 107: Embedded Values Reporting. The Group consolidated embedded value statement is the responsibility of Discovery's directors. Our responsibility is to issue a report on the embedded value as at 30 June 2009 based on our review.

Scope of engagement

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410 which applies to a review of historical financial information performed by the independent auditor of the entity. This standard requires that we plan and perform the review to obtain moderate assurance that the Group consolidated embedded value statement is free of material misstatements. A review is limited primarily to enquiries of group personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. The engagement was performed under the supervision of Mark Claassen (FIA), head of the Actuarial and Insurance Management Solutions practice of PricewaterhouseCoopers Inc. We have not performed an audit and, accordingly, we do not express an audit opinion.

Assurance conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Group consolidated embedded value as at 30 June 2009, is not prepared, in all material respects, in accordance with the requirements of PGN 107. PGN 107 represents best practice guidance issued by the Actuarial Society of South Africa, and relates to long-term insurance business. In those cases where business other than long-term insurance business has been included in the value of in-force for embedded value purposes, similar principles to those contained in PGN 107 have been used to value such business.

PricewaterhouseCoopers Inc
Director: **J Awbrey**
Registered Auditor

1 September 2009

Embedded value statement

for the year ended 30 June 2009

The embedded value of Discovery at 30 June 2009 consists of the following components:

- the free surplus attributed to the covered business at the valuation date;
- plus: the required capital to support the in-force covered business at the valuation date;
- plus: the present value of future shareholder cash flows from the in-force business;
- less: the cost of required capital and secondary tax on companies (STC).

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in force at the valuation date, discounted at the risk discount rate.

For Life, the shareholder cash flows are based on the release of margins under the Statutory Valuation Method (SVM) basis.

The embedded value includes the insurance and administration profits of all the subsidiaries in the Discovery Holdings Group. In particular, it covers business written through Discovery Life, Discovery Invest, Discovery Health, Discovery Vitality and PruHealth. For Destiny Health and PruProtect, no published value has been placed on the current in-force business.

Impact of Changes to Professional Guidance

The Actuarial Society of South Africa's updated Professional Guidance Note PGN 107: Embedded Value Reporting (Version 4) applies for all reporting periods ending on or after 31 December 2008. The embedded value of Discovery was calculated in accordance with the updated guidance for the first time in December 2008. The 30 June 2008 results shown below for Life, Invest, Health and Vitality have been restated. The PruHealth embedded value continues to be calculated using European Embedded Value Principles and Guidance as specified by the CFO Forum, accordingly no restatement of the PruHealth results are required.

The updated professional guidance has resulted in a number of changes to the calculation methodology since June 2008 for Life, Invest, Health and Vitality:

- The risk discount rate has been determined using a top-down weighted average cost of capital approach, with the required equity return calculated using Capital Asset Pricing Model (CAPM) theory. The risk discount rate has been set equal to the risk-free rate increased by a risk premium determined as a market equity risk premium multiplied by the company's beta coefficient. To avoid short-term volatility, the Discovery beta coefficient is determined using a 3-year moving average. Specifically for PruHealth, the risk discount rate includes an additional margin to allow for additional risk and uncertainty for this more recently established subsidiary in the current economic environment.

  This change in methodology has resulted in a reduction in the risk margin from 3% previously to 1.575% at 30 June 2009. The risk discount rate, calculated using the CAPM approach with specific reference to the Discovery beta coefficient, reflects the historic performance of the Discovery share price relative to the market and contains a lower allowance for non-market related and non-financial risk. Previously, these risks were allowed for through a higher margin in the risk discount rate. Investors may want to consider the impact of the change in methodology and form their own view on an appropriate allowance for the non-financial risks which have not been modelled explicitly. The sensitivities of the value of in-force covered business and the value of new business to changes in the risk discount rate are shown in Tables 10 and 11 below.

- The cost of capital has been calculated using the greater of the level of statutory capital and the level of economic capital required to cover the risks inherent in the in-force business. For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement (CAR). For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For PruHealth, the required capital was set equal to the statutory requirement and was calculated as 18% of the annualised premium income.

  It is assumed that, for the purposes of calculating the cost of required capital, the Life required capital amount will be backed by surplus assets consisting of 100% equities and the Health, Vitality and PruHealth required capital amounts will be fully backed by cash. Allowance has been made for tax and investment expenses in the calculation of the cost of capital. In calculating the CGT liability, it is assumed that the portfolio is realised every 5 years. The Life cost of capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health and PruHealth cost of capital is calculated using the difference between the risk discount rate and the net of tax cash return.

Embedded value statement (continued)

for the year ended 30 June 2009

The impact of these changes is shown in Table 1 below:

Table 1: Impact of PGN 107 changes on embedded value and value of new business

R million	30 June 2008
Embedded value	16 482
Impact of:	
Change to risk discount rate margin	1 527
Change to cost of required capital	(128)
Restated embedded value	**17 881**
Published value of new business	805
Impact of:	
Change to risk discount rate margin	284
Change to cost of required capital	(16)
Restated value of new business	**1 073**

Consolidated Embedded Value

The consolidated embedded value statement is shown in Table 2 below.

Table 2: Group embedded value

R million	30 June 2009	Restated 30 June 2008	% change
Shareholders' funds	**7 013**	6 164	14
Adjustment to shareholders' funds from published basis(1)	**(4 012)**	(3 861)	
Adjusted net worth	**3 001**	2 303	
– Free Surplus	**2 096**	1 561	
– Required Capital(2)	**905**	742	
Run-down costs for Destiny Health(3)	**(42)**	(190)	
Value of in-force covered business before cost of capital	**17 939**	16 560	
Cost of required capital	**(327)**	(203)	
Cost of STC(4)	**(531)**	(589)	
Discovery Holdings embedded value	**20 040**	17 881	12
Number of shares (millions)	**553.6**	546.0	
Embedded value per share	**R36.20**	R32.75	11
Diluted number of shares (millions)	**591.3**	592.0	
Diluted embedded value per share(5)	**R35.83**	R32.05	12

(1) The published Shareholders' funds has been adjusted to eliminate net assets under insurance contracts, deferred tax and deferred acquisition costs at June 2009 of R3 984 million (June 2008: R3 827 million) in respect of Life and R28 million (June 2008: R34 million) in respect of PruHealth.

(2) The required capital at June 2009 for Life is R460 million (June 2008: R348 million), for Health and Vitality is R333 million (June 2008: R291 million) and for PruHealth is R112 million (June 2008: R103 million).

(3) The run-down costs for Destiny Health relate to the expected future operational costs and risk profits/losses expected in the course of running down the existing block of in-force business.

(4) An STC rate of 10% is assumed. The total STC charge has been allocated between the different business entities based on their contribution to the total value of in-force covered business.

(5) The diluted embedded value per share allows for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.

Value of in-force business

The value of in-force business is shown in Table 3 below.

Table 3: Value of in-force covered business

R million	Value before cost of capital and STC	Cost of required capital	Cost of STC	Value after cost of capital and STC
at 30 June 2009				
Health and Vitality	**8 531**	**(115)**	**(252)**	**8 164**
Life and Invest(1)	**9 118**	**(162)**	**(270)**	**8 686**
PruHealth(2)	**290**	**(50)**	**(9)**	**231**
Total	**17 939**	**(327)**	**(531)**	**17 081**
at 30 June 2008 (Restated)				
Health and Vitality	7 798	(108)	(277)	7 413
Life and Invest(1)	8 401	(60)	(299)	8 042
PruHealth(2)	361	(35)	(13)	313
Total	16 560	(203)	(589)	15 768

(1) Included in the Life and Invest value of in-force covered business is R172 million (June 2008: R47 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.

(2) The values shown for PruHealth reflect Discovery's 50% shareholding in PruHealth.

Embedded value earnings

The change in embedded value from one year to the next represents the embedded value earnings for Discovery, adjusted for changes to the shareholders' funds.

Table 4: Group embedded value earnings

R million	**Year ended 30 June 2009**	Restated Year ended 30 June 2008
Embedded value at end of period	**20 040**	17 881
Less: Embedded value at beginning of period	**(17 881)**	(15 395)
Increase in embedded value	**2 159**	2 486
Net issue of capital	**(68)**	(73)
Dividends paid	**269**	236
Minority share buy-back	**(7)**	2
Transfer to hedging reserve	**(43)**	16
Embedded value earnings	**2 310**	2 667
Annualised return on opening embedded value	**12.9%**	17.3%

Embedded value statement (continued)

for the year ended 30 June 2009

Components of embedded value earnings

The components of the embedded value earnings are explained below.

Table 5: Components of Group embedded value earnings

R million	Net worth	Cost of required capital	Value of in-force covered business less Cost of STC	Embedded value
Total profit from new business (at point of sale)	(1 697)	(62)	2 863	1 104
Profit from existing business				
– Expected return	2 122	3	(98)	2 027
– Change in methodology and assumptions	1 283	(43)	(1 945)	(705)
– Experience variances	(227)	(31)	634	376
Other initiative costs[(1)]	(303)	–	–	(303)
Acquisition costs	(4)	–	–	(4)
Foreign exchange rate movements	(49)	9	(64)	(104)
Cost of STC[(2)]	–	–	46	46
Return on shareholders' funds	(127)	–	–	(127)
Embedded value earnings	998	(124)	1 436	2 310

(1) This item reflects the expenses relating to the establishment of PruProtect and Discovery Invest and the support of Destiny Health. These costs have not been projected on a recurring basis in the embedded value due to the fact that income from business sold under these initiatives has not been projected or the costs are not expected to recur.

(2) The positive change in the cost of STC is due to the increase in the present value of STC credits following a reduction in the risk discount rate.

Profit from new business

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain (for Life), initial expenses, cost of capital and STC. The value of new business is calculated using the current reporting date assumptions.

In calculating the value of new business, Health new business is defined as individuals and members of new employer groups joining Discovery, irrespective of the size of the employer, and includes additions to first year business. Vitality new business includes all new members joining Vitality over the period. There have been no changes to the definition of Health and Vitality new business since the previous valuation.

Life new business is defined as Life policies or Discovery Retirement Optimiser policies which incepted during the reporting period and which are on risk at the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Policy alterations, including Discovery Retirement Optimisers added to existing Life plans, are shown as experience variances and not included as new business. Previously, Discovery Retirement Optimisers added to existing Life plans, were included in the value of new business. Term extensions on existing contracts are not included as new business.

PruHealth new business is defined as individuals and employer groups which joined during the reporting period. There have been no changes to the definition of PruHealth new business since the previous valuation.

Table 6: Embedded value of new business

R million	30 June 2009	Restated 30 June 2008	% change
Health and Vitality			
Present value of future profits from new business at point of sale	**295**	246	
Cost of required capital	**(11)**	(9)	
Cost of STC	**(9)**	(9)	
Present value of future profits from new business at point of sale after cost of required capital and STC	**275**	228	21
New business annualised premium income(1)	**1 204**	1 079	12
Life and Invest			
Present value of future profits from new business at point of sale(2)	**863**	855	
Cost of required capital	**(34)**	(18)	
Cost of STC	**(23)**	(29)	
Present value of future profits from new business at point of sale after cost of required capital and STC	**806**	808	(0)
New business annualised premium income(3)	**1 246**	964	29
Annualised profit margin(4)	**7.7%**	9.5%	
Annualised profit margin excluding Invest Business	**9.9%**	10.6%	
PruHealth(5)			
Present value of future profits from new business at point of sale	**41**	48	
Cost of required capital	**(17)**	(10)	
Cost of STC	**(1)**	(1)	
Present value of future profits from new business at point of sale after cost of required capital and STC	**23**	37	(38)
New business annualised premium income(6)	**188**	219	(14)
Annualised profit margin(4)	**0.9%**	2.3%	

(1) The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 30 June 2009.

The total Health and Vitality new business annualised premium income written over the period was R3 191 million (June 2008: R2 834 million).

(2) Included in the Life and Invest value of new business is R58 million in respect of investment management services provided on off balance sheet investment business.

(3) The new business annualised premium income of R1 246 million (single premium APE: R198 million) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R415 million and servicing increases of R259 million, was R1 920 million (single premium APE: R198 million). Single premium business is included at 10% of the value of the single premium.

(4) The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

(5) The values shown in this table for PruHealth reflect Discovery's 50% shareholding in PruHealth.

(6) The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month as well as premiums in respect of new business written during the period but only activated after 30 June 2009.

Embedded value statement (continued)

for the year ended 30 June 2009

Expected return

The risk discount rate is the return investors would have expected to earn on the previous year's value of in-force business. This amount is reflected as the expected return of R2 027 million.

Change in methodology and assumptions

The assumptions used in the embedded value are changed using an active basis to realistically reflect changes in Discovery's operating conditions. The change in methodology and assumptions item will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail below (for previous periods refer to previous embedded value statements).

Table 7: Methodology and assumption changes

	Health and Vitality		Life and Invest		PruHealth		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes	–	–	126	(192)	–	–	(66)
Economic assumptions	–	(47)	(26)	546	–	102	575
Benefit enhancements(1)	–	22	(134)	(2)	–	–	(114)
Lapse assumption(2)	–	(35)	47	(1 205)	–	(93)	(1 286)
Premium increases	–	–	3	60	–	–	63
Mortality and morbidity(3)	–	–	45	330	–	(53)	322
Expenses	–	(90)	(3)	(6)	–	1	(98)
Commission	–	–	–	–	–	(68)	(68)
Tax	–	–	–	(42)	–	–	(42)
Reinsurance(4)	–	–	1 037	(1 019)	188	(174)	32
Vitality	–	–	–	–	–	(23)	(23)
Total	–	(150)	1 095	(1 530)	188	(308)	(705)

(1) The Life and Invest benefit enhancements relate to improvements in the risk benefits following the June 2008 product launch being made available to existing policyholders.

(2) The Life and Invest lapse assumption has been increased following higher than expected lapse experience, and to allow for higher lapses in future as a result of the uncertain economic environment. The lapse rate has been increased above current actual experience in the short term.

(3) Mortality and severe illness assumptions have been reduced marginally following consistently better than expected claims experience in the past.

(4) The reinsurance change for Life relates to the impact of financing reinsurance arrangements which were effective from 31 December 2008.

Experience variances

The embedded value is based on a series of assumptions about the future. To the extent that actual experience differs from these assumptions, then the actual profits will differ from those expected. The experience variance items approximately quantify this difference.

Table 8: Experience variances

	Health and Vitality		Life and Invest		PruHealth		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Renewal expenses	30	–	(13)	–	–	–	17
Other expenses(1)	(51)	–	(5)	–	–	–	(56)
Economic assumptions(2)	5	98	34	180	–	–	317
Extended modelling term(3)	–	203	–	12	–	22	237
Lapses and surrenders(4)	9	83	(61)	(290)	–	51	(208)
Policy alterations	–	29	(152)	187	–	–	64
Mortality and morbidity	–	–	167	9	(77)	–	99
Backdated cancellations	–	–	(15)	(51)	–	–	(66)
Tax	(7)	–	(9)	27	(61)	(8)	(58)
Reinsurance	–	–	(14)	–	10	–	(4)
Other	35	12	(36)	34	(16)	5	34
Total	21	425	(104)	108	(144)	70	376

(1) Other expenses include expenses which are not expected to recur in future.

(2) For Life and Invest, the economic assumptions variance relates primarily to higher than expected premium and benefit increases due to higher than expected inflation over the period. For Health and Vitality, it relates to the inflation-linked administration and managed care fee increase in 2009 which was higher than the long-term inflation assumption in the embedded value model due to higher than expected inflation over the period.

(3) The projection term for Health, Vitality, PruHealth and Group Life at 30 June 2009 has not been changed from that used in the 30 June 2008 embedded value. Thus, an experience variance arises because the total term of the in-force covered business is effectively increased by one year.

(4) Included in the Health and Vitality lapse experience variance is an amount of R630 million in respect of members joining existing employer groups during the period, offset by an amount of negative R553 million in respect of members leaving existing employer groups. A positive variance of R15 million is due to lower than expected lapses.

Return on shareholders' funds

The return on shareholders' funds of negative R127 million represents the investment return on shareholder assets after tax and investment management charges.

Embedded value statement (continued)

for the year ended 30 June 2009

Embedded value assumptions

The principal assumptions used in the calculation of the value of in-force business and the value of new business are set out below. These assumptions represent a best estimate view of the future:

General

- The investment return assumption was based on a single interest rate derived from the risk-free zero coupon government bond yield curve. Other economic assumptions were set relative to this yield. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.
- In line with Discovery's current dividend policy, the cost of STC is calculated assuming a 4.5 times dividend cover on the after-tax profits as they emerge over the projection term.
- A notional allocation of corporate overhead expenses has been made to each of the subsidiary companies based on managements' view of each subsidiary's contribution to overheads.

Health and Vitality

- The embedded value projection term has been set at twenty years for Health and Vitality.
- The Health administration and managed care fees are assumed to increase at the expense inflation rate.
- Lapse assumptions are based on the results of recent experience investigations. The lapse rate for the projection term after 10 years was set above current experience. An additional lapse rate is assumed over the next 24 months to allow for the potential impact of the current economic climate on lapses.
- Negative turnover on employer groups is not modelled as lapses.
- Renewal expense assumptions have been based on the results of the latest expense information.

Life

- Mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information. An additional lapse rate is assumed over the next 24 months to allow for the potential impact of the current economic climate on policyholder lapses. A further increase to the future lapse rate assumptions has been made to allow for the impact of the uncertain economic environment.
- The embedded value projection term for group business has been set at ten years.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.
- For Invest business, the initial expenses are based on medium term expectations which are lower than the current total costs. This reflects a realistic position for Invest.

PruHealth

- The PruHealth assumptions were derived from internal experience augmented by industry information.
- Best estimate morbidity assumptions and forecast Vitality costs allow for the impact of management actions.
- The embedded value projection term has been set at twenty years.
- The lapse rate over the next 24 months for group business is assumed to be higher than the long-term expected lapse rate to allow for the impact of the current economic climate on lapses.

Table 9: Embedded value economic assumptions

	Year ended 30 June 2009	Restated Year ended 30 June 2008
Beta coefficient		
South Africa	**0.45**	0.44
United Kingdom	**0.45**	0.74
Equity risk premium		
South Africa	**3.50**	3.50
United Kingdom	**4.00**	4.00
Risk discount rate (%)		
Health and Vitality	**10.575**	12.54
Life and Invest	**10.575**	12.54
PruHealth	**6.40**	8.70
Rand/GB Pound Exchange Rate		
Closing	**12.71**	15.60
Average	**14.08**	14.66
Medical inflation (%)		
South Africa	**8.00**	10.00
United Kingdom	**Current levels reducing to 7.00% over the projection period**	Current levels reducing to 7.50% over the projection period
Expense inflation and CPI (%)		
South Africa	**5.00**	7.00
United Kingdom	**3.75**	4.00
Pre-tax investment return (%)		
South Africa – Cash	**7.50**	9.50
– Bonds	**9.00**	11.00
– Equity	**12.50**	14.50
United Kingdom – Cash	**2.65**	5.25
Dividend cover ratio	**4.5 times**	4.5 times
Income tax rate (%)		
South Africa	**28.00**	28.00
United Kingdom	**28.00**	28.00
Projection term		
Health and Vitality	**20 years**	20 years
Group Life	**10 years**	10 years
PruHealth	**20 years**	20 years

Embedded value statement (continued)

for the year ended 30 June 2009

Sensitivity to the embedded value assumptions

The sensitivity of the embedded value and the value of new business at 30 June 2009 to changes in the assumptions is shown below. For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

Table 10: Embedded value sensitivity

R million	Adjusted net worth less Destiny run-down costs	Health and Vitality Value of in-force	Health and Vitality Cost of Capital	Health and Vitality Cost of STC	Life Value of in-force	Life Cost of Capital	Life Cost of STC	PruHealth Value of in-force	PruHealth Cost of Capital	PruHealth Cost of STC	Embedded value	% change
Base	2 959	8 531	(115)	(252)	9 118	(162)	(270)	290	(50)	(9)	**20 040**	
Impact of:												
Risk discount rate +1%	2 959	8 060	(129)	(227)	8 227	(143)	(232)	241	(47)	(7)	**18 702**	(7)
Risk discount rate –1%	2 959	9 052	(98)	(286)	10 206	(185)	(323)	343	(55)	(11)	**21 602**	8
Lapses –10%	2 959	8 837	(120)	(260)	9 939	(179)	(293)	347	(50)	(10)	**21 170**	6
Interest rates –1%(1)	2 959	8 506	(109)	(270)	9 501	(170)	(302)	245	(55)	(8)	**20 297**	1
Equity and property market value –10%	2 843	8 531	(115)	(252)	9 091	(162)	(269)	290	(50)	(9)	**19 898**	(1)
Equity and property return +1%	2 959	8 531	(115)	(252)	9 155	(172)	(271)	290	(50)	(9)	**20 066**	0
Renewal expenses –10%	2 959	9 337	(106)	(276)	9 217	(162)	(273)	316	(50)	(9)	**20 953**	5
Mortality and morbidity –5%	2 959	8 531	(115)	(251)	9 704	(162)	(286)	480	(50)	(14)	**20 796**	4
Health, Vitality and PruHealth: Projection term +1 year	2 959	8 611	(116)	(254)	9 118	(162)	(270)	310	(52)	(9)	**20 135**	0

(1) All economic assumptions were reduced by 1%.

The following table shows the effect of using different assumptions on the value of new business.

Table 11: Value of new business sensitivity

R million	Health and Vitality Value of in-force	Health and Vitality Cost of Capital	Health and Vitality Cost of STC	Life Value of in-force	Life Cost of Capital	Life Cost of STC	PruHealth Value of in-force	PruHealth Cost of Capital	PruHealth Cost of STC	Value of new business	% change
Base	295	(11)	(9)	863	(34)	(23)	41	(17)	(1)	**1 104**	
Impact of:											
Risk discount rate +1%	269	(12)	(8)	669	(30)	(20)	25	(15)	(1)	**877**	(21)
Risk discount rate –1%	323	(9)	(10)	1 100	(39)	(28)	56	(18)	(2)	**1 373**	24
Lapses –10%	314	(11)	(9)	1 046	(37)	(25)	56	(18)	(2)	**1 314**	19
Interest rates –1%(1)	294	(10)	(9)	964	(35)	(26)	27	(16)	(1)	**1 188**	8
Equity and property return +1%	295	(11)	(9)	879	(36)	(23)	41	(17)	(1)	**1 118**	1
Renewal expense –10%	347	(10)	(10)	888	(34)	(23)	49	(16)	(1)	**1 190**	8
Mortality and morbidity –5%	295	(11)	(9)	976	(34)	(25)	95	(16)	(3)	**1 268**	15
Health, Vitality and PruHealth: Projection term +1 year	298	(11)	(9)	863	(34)	(23)	45	(17)	(1)	**1 111**	1
Acquisition costs –10%	307	(11)	(9)	924	(34)	(23)	48	(16)	(1)	**1 185**	7

(1) All economic assumptions were reduced by 1%.

Group accounting policies

for the year ended 30 June 2009

General information

Discovery Holdings Limited ("Discovery") is listed in the insurance sector of the JSE Limited. The Group consists of Discovery Health, Discovery Life, Discovery Collective Investments and Discovery Investment Services ("Discovery Invest"), Discovery Vitality, PruHealth (UK), PruProtect (UK) and the Destiny group of companies (USA). All operations take place within 100%-owned subsidiaries, with the exception of the Destiny group of companies in which Discovery has a 99.98% interest (with management owning the balance) and the PruProtection group of companies (PruHealth and PruProtect) in which Discovery has a 50% interest held indirectly via a wholly-owned subsidiary Discovery Offshore Holdings Limited (UK).

1. Discovery Health

Discovery Health provides administration services and managed care services to the Discovery Health Medical Scheme as well as twelve closed schemes.

Discovery Health offered the insurance of private ward and overseas cover benefits. These benefits were written through Discovery Life.

2. Discovery Life

Discovery Life offers a range of insurance and financial solutions to both individual and group policyholders. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Vitality and Discovery Invest.

Individual life insurance

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks including life, disability, severe illness and income continuation cover.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health plans in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit.

Discovery Retirement Optimiser

The Retirement Optimiser offers funding for retirement and offers benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding.

DiscoveryCard Protector

The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six month period prior to the life changing event.

Group Life insurance

Discovery Group Life offers a comprehensive spectrum of protection benefits on a group basis. Life cover, Severe Illness, Disability and Income Continuation Benefits are offered.

3. Discovery Invest

Discovery Invest offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers including Discovery Life policies.

4. Discovery Vitality

Vitality offers the Group's clients health and lifestyle benefits with selected partners. This business includes the DiscoveryCard which is offered to Discovery policyholders within South Africa. The lifestyle benefits offered by Vitality are subject to change and can be adjusted on a monthly basis.

Group accounting policies (continued)

for the year ended 30 June 2009

5. PruHealth

Health insurance

The PruHealth product offers policyholders in the United Kingdom, cover for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.

Policies offered by PruHealth are annual contracts which can be cancelled or the premiums adjusted on renewal.

6. PruProtect

Individual life insurance

PruProtect is Discovery's life insurance joint venture in the United Kingdom. It sells pure protection policies and is based on the Vitality structure that enables dynamic pricing to be employed in the UK life assurance market.

7. Destiny Health

Health insurance

The Destiny product historically offered policyholders in the United States, cover for a range of health insurance benefits. Policies offered by Destiny are annual contracts which can be cancelled or the premiums adjusted on renewal. Since early 2008, Destiny Health has been winding down its health insurance exposure. Destiny will continue to offer the Vitality programme in the US but on a stand-alone basis by wrapping it around other health plans and employer groups.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1. Basis of presentation

Discovery's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Discovery prepares its audited consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for:

- financial instruments classified as available-for-sale held at fair value through equity;
- derivative financial instruments at fair value through profit or loss;
- financial instruments designated as held at fair value through profit or loss;
- share based payment liabilities accounted for in terms of IFRS 2;
- third party financial liabilities arising on consolidation of unit trusts carried at fair value; and
- policyholder liabilities and assets arising from insurance contracts liabilities are determined based on a prospective discounted cash flow valuation basis as outlined under accounting policy 13 below.

The preparation of audited consolidated and company financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 4.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

Amendments and interpretations to published standards effective for Discovery's 2009 financial year

The following amendments and interpretations are mandatory for the current accounting period and have been adopted.

- IAS 39 (Amendment): *Reclassification of financial assets* – An amendment to the standard, issued in October 2008, permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particular circumstances. The amendment also permits an entity to transfer from the available-for-sale category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as available-for-sale), if the entity has the intention and ability to hold that financial asset for the foreseeable future. Discovery has not elected to reclassify such financial assets; as such, this amendment has no impact on the Group's financial statements.

- IFRIC 13: *Customer Loyalty Programmes* – IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ("awards") to customers who redeem award credits. The key provisions are as follows:
  - An entity that grants loyalty award credits shall allocate some of the proceeds of the initial sale to the award credits as a liability (its obligation to provide the awards). In effect, the award is accounted for as a separate component of the sale transaction.
  - The amount of proceeds allocated to the award credits is measured at their fair value, that is, the amount for which the award credits could have been sold separately.
  - The entity shall recognise the deferred portion of the proceeds as revenue only when it has fulfilled its obligations. It may fulfill its obligations either by supplying the awards itself or by engaging (and paying) a third party to do so.
  - If at any time the expected costs of meeting the obligation exceed the consideration received, the entity has an onerous contract for which IAS 37 would require recognition of a liability.
  - If IFRIC 13 causes an entity to change its accounting policy for customer loyalty awards, IAS 8 applies.

The impact of this statement on the results of Discovery is immaterial.

Interpretations effective for Discovery's 2009 financial year but not relevant to Discovery's operations

- IFRIC 12: *Service concession arrangements*
- IFRIC 14 IAS 19: *The limit on a Defined Benefit Asset, minimum funding requirements and their interaction*

New standards, amendments and interpretations to existing standards not yet effective

The following new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but Discovery has not early adopted them:

- IAS 1 (Revised): *Presentation of financial statements* (effective from 1 January 2009) – This amendment requires that an entity must present all non-owner changes in equity either in one statement of comprehensive income or in two statements; a separate income statement and a statement of comprehensive income. All owner changes in equity are recognised in a statement of changes in equity.

  Comprehensive income for a period includes profit or loss for that period plus other income. Other income comprises income or expense items that are not recognised in profit or loss as required or permitted by other standards. The standard does not change the recognition, measurement or disclosure of specific transactions.
- IAS 27 (Revised): *Consolidated and separate financial statements* (effective from 1 July 2009) – The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. This statement will not impact the results of Discovery as this is the method currently followed.
- IAS 39 (Amendment): *Eligible hedged items* (effective from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. It is not expect to have a material impact on the Group's results.
- IFRS 2 (Amendment): *Share-based payments* (effective from 1 January 2009) – The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such, these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment is not expected to have a material impact on the Group's financial statements.
- IFRS 3 (Revised): B*usiness combinations* (effective from 1 July 2009) – The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. Discovery will apply IFRS 3 (Revised) prospectively to all business combinations from 1 July 2009.

Group accounting policies (continued)

for the year ended 30 June 2009

- IFRS 8: *Operating segments* (effective from 1 January 2009) – IFRS 8 replaces IAS 14: *Segment reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This statement will not impact the results of Discovery but may impact in the identification and measurement of segment results.
- IFRIC 16: *Hedges of a net investment in a foreign operation* (effective from 1 October 2008) – IFRIC 16 clarifies the accounting treatment in respect of net investment hedging including the fact that net investment hedging relates to differences in functional currency, not presentation currency and hedging instruments may be held anywhere in the Group. The requirements of IAS 21: *The effects of changes in foreign exchange rates*, further do apply to the hedged item. Discovery will apply IFRIC 16 from 1 July 2009, but is not expected to have a material impact on the Group's financial statements.

The following amendments are part of the International Accounting Standards Board's (IASB) annual improvements project, published in May 2008 (all amendments effective from annual periods beginning on or after 1 January 2009, unless otherwise stated):

- IAS 1 (Amendment): *Presentation of financial statements* – The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39: *Financial instruments: Recognition and measurement* are examples of current assets and liabilities respectively. It is not expected to have an impact on the Group's annual financial statements.
- IAS 28 (Amendment): *Investment in associates* (and consequential amendments to IAS 32: *Financial instruments: Presentation* and IFRS 7: *Financial instruments: Disclosures*) – An investment in an associate is treated as a single asset for the purposes of impairment testing, and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals to impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The amendment will not have an impact on the Group's financial statements.
- IAS 31 (Amendment): *Interests in joint ventures* (and consequential amendments to IAS 32 and IFRS 7) – Where an investment in joint venture is accounted for in accordance with IAS 39, only certain, rather than all, disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32: *Financial instruments: Presentation* and IFRS 7: *Financial instruments: Disclosures*. The amendment will not have an impact on the Group's results.
- IAS 36 (Amendment): *Impairment of assets* – Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Discovery will apply the amendment and provide the required disclosure where applicable for impairment tests from 1 July 2009.
- IAS 38 (Amendment): *Intangible assets* – A pre-payment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The amendment is not expected to have any impact on the Group's earnings. The amendment also deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the Group's financial statements as all intangible assets are amortised using the straight-line method.
- IAS 39 (Amendment): *Financial instruments: Recognition and measurement* – It clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8: *Operating segments,* which requires disclosure for segments to be based on information reported to the chief operating decision-maker.

  When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

  The amendment is not expected to have an impact on Discovery's results.

- There are a number of minor amendments to IFRS 7: *Financial instruments: Disclosures*, IAS 8: *Accounting policies, changes in accounting estimates and errors*, IAS 10: *Events after the reporting period*, IAS 18: *Revenue* and IAS 34: *Interim financial reporting* – These amendments are unlikely to have an impact on the Group's accounts and have therefore not been analysed in detail.

Interpretations and amendments to existing standards not yet effective and not relevant for Discovery's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IAS 20 (Amendment): *Accounting for government grants and disclosure of government assistance* (effective from 1 January 2009)
- IAS 23 (Revised): *Borrowing Costs* (effective from 1 January 2009)
- IAS 32 (Amendment): *Financial instruments: Presentation* and IAS 1 (Amendment): *Presentation of financial statements – Puttable financial instruments and obligations arising on liquidation* (effective from 1 January 2009)
- IFRS 1 (Amendment): *First-time adoption of IFRS* and IAS 27: C*onsolidated and separate financial statements* (effective from 1 January 2009)
- IFRIC 15: *Agreements for construction of real estates* (effective from 1 January 2009)
- IFRIC 17: *Distributions of non-cash assets to owners* (effective from 1 July 2009)
- IFRIC 18: *Transfers of Assets from Customers* (effective from 1 July 2009)

The following amendments are part of the IASB's annual improvements project published in May 2008 and are not currently applicable to Discovery's operations (effective from annual periods beginning on or after 1 January 2009 unless otherwise stated):

- IAS 16 (Amendment): *Property, plant and equipment*
- IAS 19 (Amendment): *Employee benefits*
- IAS 20 (Amendment): *Accounting for government grants and disclosure of government assistance*
- IAS 23 (Amendment): *Borrowing costs*
- IAS 27 (Amendment): *Consolidated and separate financial statements*
- IAS 28 (Amendment): *Investment in associates*
- IAS 29 (Amendment): F*inancial reporting in hyperinflationary economies*
- IAS 40 (Amendment): *Investment property*
- IAS 41 (Amendment): *Agriculture*
- IFRS 5 (Amendment): *Non-current assets held for sale and discontinued operations*

2. Consolidation

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries.

2.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which Discovery has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Discovery considers the existence and effect of potential voting rights that are currently exercisable or convertible when assessing whether Discovery controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to Discovery. Consolidation is discontinued from the date on which control ceases.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by Discovery.

Interests in subsidiaries in the company financial statements are shown at cost less any required impairment.

Unit trusts, in which the Group has greater than 50% economic interest resulting in effective control, are consolidated. The consolidation principles applied to these unit trusts are consistent with those applied to consolidated subsidiary companies.

Interests in unit trusts in the company financial statements, that are subsidiaries by definition, are designated at fair value through profit or loss and measured as set out in accounting policy 7.1.

Group accounting policies (continued)

for the year ended 30 June 2009

2.2 Transactions and minority interests

Minority shareholders are treated as equity participants and, therefore, all acquisitions of minority interests or disposals by the Group of its minority interests in subsidiary companies where control is maintained subsequent to the disposal are accounted for as equity transactions with minorities. Consequently, the difference between the purchase price and the book value of a minority interest purchased is recorded in equity. All profits and losses arising as a result of the disposal of interests in subsidiaries to minorities, where control is maintained subsequent to the disposal, are also recorded in equity.

2.3 Associates

Associates are all entities over which Discovery has the ability to exercise significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. Discovery's interest in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Discovery's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When Discovery's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Discovery does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between Discovery and its associates are eliminated to the extent of Discovery's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by Discovery.

Interest in unit trusts in which Discovery has between 20% an 50% economic interest, therefore providing significant influence, are deemed to be interests in associates and are, on initial recognition, designated as financial assets at fair value through profit or loss, based on the scope exemption in IAS 28 – Investments in Associates for investment-linked insurance funds.

2.4 Joint ventures

Joint ventures are entities in which Discovery has joint control over an economic activity of the joint venture, through a contractual agreement.

Discovery accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method Discovery includes its share of a joint venture's individual income, expense, assets and liabilities and cash flows in the relevant components of its financial statements. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by Discovery.

3. Foreign currency translation

3.1 Functional and presentation currency

Items included in the financial statements of each of Discovery's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Rand (R), which is the functional and presentation currency of Discovery Holdings Limited.

3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

3.3 Group companies

The results and financial position of all Discovery entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates at the date of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognised in the foreign currency translation reserve in equity. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

4. Property and equipment

Property and equipment are stated at historical cost less depreciation and impairment except for land which is stated at cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Discovery and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold premises	Shorter of estimated life or period of lease
Property held under finance lease	
– Buildings and structures	50 years
– Mechanical and electrical components	20 years
– Sundries	20 years
Computer equipment and operating systems	3 years
Furniture and fittings	6 years
Motor vehicles	4 years
Office equipment	5 years
Computer software packages	3 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount. These are recorded in the income statement in marketing and administration expenses.

5. Investment property

Investment property is property held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment property comprises freehold land and buildings held under a finance lease. The initial cost shall be as prescribed for a finance lease as set out in accounting policy 20, ie. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability. After recognition the investment property shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Investment property held under finance lease

– Buildings and structures	50 years
– Mechanical and electrical components	20 years
– Sundries	20 years

Group accounting policies (continued)

for the year ended 30 June 2009

Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and do not change the cost of the property for measurement or disclosure purposes.

An investment property shall be derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset and shall be recognised in the income statement.

6. Intangible assets

6.1 Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by Discovery are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their useful lives, which does not exceed three years. The amortisation is reflected under marketing and administration expenses in the income statement.

6.2 Deferred acquisition costs – insurance and investment contracts

The accounting policy for deferred acquisition costs relating to insurance and investment contracts is detailed in accounting policy 13. The amortisation of deferred acquisition costs is reflected under acquisition costs in the income statement.

6.3 Other intangible assets

Discovery does not attribute value to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts and expenses the costs incurred to the income statement in the period in which they are incurred.

7. Financial assets

Discovery classifies its investments into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; and
- available-for-sale financial assets.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Discovery has also transferred substantially all risks and rewards of ownership.

7.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified into the 'financial assets at fair value through profit or loss' category at inception if:

- it is acquired principally for the purpose of selling in the short term;
- it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking; or
- so designated by management.

Derivatives are also classified as held for trading unless they are designated as hedges.

Financial assets designated as at fair value through profit or loss at inception are those that are:

- held in internal funds to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and
- managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to Discovery's key management personnel.

Financial assets carried at fair value through profit or loss are initially recognised at fair value with transaction costs expensed in the income statement. These assets are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

Discovery recognises interest income, dividends received, realised and unrealised gains and losses of 'financial assets at fair value through profit or loss' category within net fair value gains on financial assets at fair value through profit or loss in the income statement.

7.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that Discovery intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale.

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Discovery will not be able to collect all amounts due according to their original terms (see accounting policy 8 for the policy on impairment). Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

7.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of assets classified as available-for-sale are recognised in equity. When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as net realised gains on available-for-sale financial assets and impairment on available-for-sale financial assets respectively.

Discovery recognises interest income and dividends received from these assets as part of investment income in the income statement. Dividends are recognised when the entity's right to receive payment is established.

7.4 Fair value

The fair values of quoted investments are based on current bid prices. Collective investments are valued at their repurchase price. If the market for a financial asset is not active, Discovery establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Group accounting policies (continued)

for the year ended 30 June 2009

8. Impairment of assets

8.1 Financial assets carried at amortised cost

Discovery assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and the loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence includes the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in Discovery, including:
  - adverse changes in the payment status of issuers or debtors in Discovery; or
  - national or local economic conditions that correlate with defaults on the assets in Discovery.

Discovery first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If Discovery determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

8.2 Financial assets carried at fair value

Discovery assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed. The impairment loss is reversed through the income statement, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

Discovery has taken the view that a 30% decline in the fair value of an investment in an equity instrument below cost would be classified as significant and a period of nine months or more would be a prolonged decline.

8.3 Impairment of other non-financial assets

Assets including intangible assets and deferred acquisition costs that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use. Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment charge is recognised as a loss in the income statement immediately.

9. Derivative financial instruments

Discovery initially recognises derivative financial instruments in the balance sheet at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments at their fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Discovery designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- hedges of highly probable forecast transactions (cash flow hedge).

Discovery documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Discovery also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

9.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity.

9.2 Cash flow hedge

Discovery recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

9.3 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in the income statement.

10. Offsetting financial instruments

Discovery offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

11. Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise:

- cash in hand;
- deposits held at call and short notice; and
- balances with banks.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have a maturity of less than three months. Cash and cash equivalents are carried at cost which due to their short term nature approximates fair value.

Group accounting policies (continued)

for the year ended 30 June 2009

12. Share capital

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

13. Insurance and investment contracts

Discovery issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Discovery defines as significant insurance risk the possibility of having to pay benefits, on the occurrence of an insured event, that are significantly more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk without significant insurance risk. Financial risk refers to the risk of a possible future change in the value of an asset or financial instrument due to a change in interest rate, commodity price, index of prices, foreign exchange rate or other measurable variable.

13.1 Insurance contracts

Discovery developed its accounting policies for insurance contracts before the adoption of IFRS 4. As provided for in IFRS 4, Discovery continues to apply the same accounting policies for the recognition and measurement of obligations arising from insurance contracts that it issues and reinsurance contracts that it holds.

Recognition and measurement

Insurance contracts are classified into three main categories, depending on the duration of the risk and the type of risk insured.

(i) Individual life insurance

These contracts insure against a comprehensive spectrum of risks including life, disability, severe illness and income continuation cover. These contracts are long-term in nature.

For the published accounts, the actuarial value of policyholder liabilities is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. Best estimate assumptions regarding the future experience of claims experience, premium income, expenses and commission are used. Where the same policy includes both insurance and investment components and where the policy is classified as an insurance policy, the liability for the insurance benefits and investment benefits are separately calculated.

Where the value of policyholder liabilities is negative, this is shown as assets arising from insurance contracts.

Liabilities for investment benefits where benefits are in part dependent on the performance of underlying investment portfolios are taken as the aggregate value of the policies' investment in the investment portfolio at the valuation date.

Applying the valuation basis on the best estimate basis, described above, results in a gain at initial recognition in excess of initial expenses. Compulsory and discretionary margins are therefore added to the best estimate assumption to avoid the premature recognition of future profits. At initial recognition profits are recognised to the extent of the actual acquisition costs incurred but considering the premium loadings available on the total portfolio to recoup acquisition costs.

Discretionary and compulsory margins are therefore added to the best estimate assumptions within the following framework:

- All margins are at least equal to the compulsory margins prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margin vary based on policy duration to ensure that the margin is in the conservative direction, overall. Both the discount rate and lapse rate margins are initially additions to the best estimate rate but switch to reductions from the best estimate rate at later durations. The point where the margin changes direction is set considering the profitability of the total portfolio and considering broad durational groupings.
- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity margins are added to protect against future possible adverse experience.
- Additional margins are added to allow for the release of profit over the term of the policy.

- Margins are released over the term of a policy in-line with the risk borne.
- The best estimate and margins are reset at every valuation date to reflect the underlying profitability of the portfolio.
- Assets under insurance contracts are not used to offset the liability under the pure investment benefits of the policy.

In the valuation of the policyholder liability for South African policies, it has been assumed that all policyholders change to plans with minimum premium increases without changing the cover levels at the valuation date. This is in line with South African actuarial guidance which requires that expected profits in respect of future options that may be taken up by policyholders should not be recognised in the policyholder liability.

The actuarial liabilities are calculated gross of reinsurance. The expected impact of reinsurance is valued separately.

The valuation basis meets the requirement of the liability adequacy test as required by IFRS 4 for individual life insurance and no additional tests are performed.

The liability estimates are reviewed at every reporting date and any changes in estimates to the liability are reflected in profit or loss as they occur.

For these contracts, premiums are recognised as revenue when due. Premiums are shown before the deduction of commission and exclude taxes and levies.

Insurance benefits and claims relating to individual life insurance contracts are recognised in the income statement based on the estimated liability for compensation owed to the contract holder. Death, disability and severe illness and surrender claims are accounted for when notified. These claims include claims reported but not yet validated. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type. An estimate of the expected claim amount is charged to the income statement and included in liabilities under insurance contracts. Maturity and income disability are recorded as incurred. Liabilities are held to reflect incurred but not yet reported (IBNR) claims. The IBNR is modified to reflect actual current operating conditions. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recoveries from reinsurers.

Acquisition costs for these contracts represent commission and other costs that relate to the securing of new contracts and the renewing of existing contracts. The valuation basis for valuing insurance contracts makes implicit allowance for the deferral of acquisition costs and hence no explicit deferred acquisition cost asset is recognised in the balance sheet. These are expensed in the income statement.

(ii) Group life insurance

These contracts insure against a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered. These contracts are short-term in nature.

For these contracts, premiums are recognised as revenue when due. Premiums are shown before the deduction of commission and exclude taxes and levies.

Where a claim is reported but not yet validated, an estimate of the expected claim is charged to the income statement in the period in which it is reported and included in liabilities under insurance contracts. Liabilities are held to reflect IBNR claims. The IBNR is estimated based on the actual incidence of historic reported claims. The IBNR is calculated on the risk premiums net of profit loadings as this represents the best estimate of future claims experience. The IBNR is further modified to reflect current operational conditions or known events. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recovery from reinsurers.

Acquisition costs for group life insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commissions are expensed as incurred.

(iii) Health insurance

These contracts insure policyholders against healthcare related claims.

Health insurance premiums received in respect of annual contracts are recognised proportionally over the period of the coverage. The portion of the premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as unearned premiums within liabilities arising from insurance contracts. The unearned premium income is amortised on a straight-line basis.

Benefits payable under health insurance contracts are accounted for as incurred. Liabilities are held to reflect IBNR claims. The IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. The IBNR is further modified to reflect current operational conditions or known events. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recovery from reinsurers.

Group accounting policies (continued)

for the year ended 30 June 2009

The direct costs (commissions) of acquiring short-term health insurance business which are incurred during the year but which are expected to be recoverable out of future revenue margins are deferred and disclosed as an asset in the balance sheet, gross of tax. The costs are deferred over the period of the contract and amortised on a straight-line basis in line with unearned premiums.

Embedded derivatives

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an investment fund purchased with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Discovery does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through income.

Liability adequacy test

At balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from the liability adequacy test.

Reinsurance contracts

Contracts entered into by Discovery with reinsurers under which it is compensated for losses on one or more contracts issued by Discovery and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The amounts Discovery is required to pay under its reinsurance contracts held are recognised as reinsurance liabilities (liabilities arising from reinsurance contracts).

The amounts due to Discovery under its reinsurance contracts are recognised as reinsurance assets (classified within loans and receivables). Discovery assesses its reinsurance assets for impairment on an annual basis following the same method used for financial assets.

In certain cases there is a gain or loss at inception of a reinsurance contract:

- Where these amounts relate to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurer.
- Other gains or losses are amortised over the life of the insurance policies on the same basis as the profit is expected to emerge.

Deferred acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised over the life of the contracts.

Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Discovery assesses its receivables for impairment on an annual basis following the same method used for financial assets.

13.2 Investment contracts

Recognition and measurement

Discovery issues investment contracts without fixed benefits (unit-linked and structured products) and investment contracts with fixed and guaranteed benefits (term certain annuity).

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) and are designated at inception as at fair value through profit or loss. Discovery designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See accounting policy 7.1 for the financial assets backing these liabilities.

Discovery's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit price that reflects the fair values of the financial assets contained within the Discovery's unitised investment funds linked to the financial liability. The fair value of the financial liabilities is obtained by multiplying the number of units attributed to each policyholder at the balance sheet date by the unit price for the same date.

For investment contracts with fixed and guaranteed terms, valuation techniques are used to establish the fair value at inception and at each reporting date. Valuation techniques include discounted cash flow analysis using current market rates of interest and reference to other instruments that are substantially the same.

All premiums under investment contracts which are recorded as deposits to investment contract liabilities and claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

Deferred acquisition costs (DAC)

Deferred acquisition costs on investment contracts represent the contractual customer relationship and the right to receive future investment management fees. Incremental costs directly attributable to securing rights to receive policy fees for services sold with investment contracts are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered. An incremental cost is one that would not have been incurred if the Group had not secured the investment contract.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract on an appropriate basis. The costs of securing the right to provide asset management services do not include transaction costs relating to the origination of the investment contracts.

Fees on investment contracts

Service fee income on investment management contracts is recognised on an accrual basis as and when the services are rendered. Fees on investment contracts are included in fee income.

A deferred revenue liability ("DRL") is recognised in respect of upfront fees, which are directly attributable to a contract, that are charged for securing the investment management service contract. The DRL is then released to revenue when the services are provided, over the expected duration of the contract on an appropriate basis.

Regular fees are charged to the customer monthly either directly or by making a deduction from invested funds.

14. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Group accounting policies (continued)

for the year ended 30 June 2009

15. Deferred income tax

Discovery calculates deferred income tax on all temporary differences using the balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates that have been substantially enacted to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery recognises deferred tax assets if the directors of Discovery consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the gain or loss is realised.

16. Employee benefits

16.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations.

For defined contribution plans, Discovery pays contributions to privately administered pension insurance plans on a mandatory basis. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

16.2 Post-retirement medical benefits

Discovery has no liability for the post-retirement medical benefits of employees.

16.3 Share-based compensation

Discovery operates equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based compensation plans

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit and loss immediately.

Cash-settled share-based compensation plans

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

16.4 Termination benefits

Discovery recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. Discovery has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

16.5 Leave pay

Discovery accrues in full the employees' rights to annual leave entitlement in respect of past service. This is expensed over the period the services are rendered.

16.6 Profit share and bonus plan

Discovery recognises a liability and an expense for bonuses and profit-sharing in staff costs, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

17. Provisions

Provisions are recognised when, as a result of past events, Discovery has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

Discovery recognises a provision for an onerous contract when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

18. Contingent liabilities

Discovery discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

19. Revenue recognition

19.1 Insurance premium revenue

Insurance premium revenue includes individual life insurance premiums, group life insurance premiums and health insurance premiums. These are accounted for as described in accounting policy 13.

19.2 Fee income on administration business

Administration fees and managed care fees are included in fee income. These are accounted for on an accrual basis when the services are rendered.

19.3 Investment income

Investment income comprises interest and dividends received on available-for-sale investments, assets held at amortised cost and cash and cash equivalents.

Discovery recognises dividends when Discovery's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest is accounted for on an accrual basis using the effective interest rate method.

Group accounting policies (continued)

for the year ended 30 June 2009

19.4 Net realised gains on available-for-sale financial assets

Net realised gains comprise realised gains and losses on available-for-sale financial instruments. The accumulated fair value gains and losses recognised in equity are accounted for on disposal of the investment in the income statement as net realised gains and losses.

19.5 Net fair value gains on financial assets at fair value through profit or loss

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial instruments held at fair value through profit or loss.

19.6 Vitality income

Vitality income includes Vitality contributions and sales of benefits offered by Vitality which are accounted for as the services are rendered.

20. Leases

20.1 Finance leases

Discovery classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement over the lease period. The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

20.2 Operating leases

Discovery classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

21. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure as well as all other non-commission related expenditure and benefits paid under the Vitality program and are expensed as incurred.

22. Finance costs

Borrowing costs are expensed when incurred and these are included in finance costs.

23. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax. Direct taxes are disclosed as taxation in the income statement.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and regional services levies. Indirect taxes are disclosed as part of marketing and administration expenses in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Discovery entities operate.

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life insurance companies.

24. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

25. Segment reporting

Discovery defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"), or
- products or services within a particular economic environment ("geographical segment"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

Discovery uses its business segments as its primary reporting format. At 30 June 2009, Discovery is organised into six business segments:

(i) **Health South Africa:** administers and provides managed care services to medical schemes and renders administration services to other business segments within the Group.

(ii) **Health United States of America:** offers consumer driven health insurance products to employer groups and individuals in the United States of America.

(iii) **Health United Kingdom:** offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom, together with Prudential Assurance Company Limited. All contracts in this segment are short-term insurance contracts.

(iv) **Life South Africa:** offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in South Africa.

(v) **Life United Kingdom:** offers a risk-only life assurance product. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in the United Kingdom, together with Prudential Assurance Company Limited.

(vi) **Vitality:** offers health and lifestyle benefits with selected partners to the Group's clients. This segment includes the DiscoveryCard which is offered to clients within South Africa.

Balance sheet

as at 30 June 2009

R million	Notes	Group 2009	Group 2008
ASSETS			
Property and equipment	4	**199**	291
Investment property	5	**20**	–
Intangible assets including deferred acquisition costs	6	**520**	243
Assets arising from insurance contracts	7	**5 449**	4 165
Investment in associate	8	**–**	1
Financial assets			
– Equity securities	10	**2 469**	2 055
– Equity linked notes	10	**693**	459
– Debt securities	10	**488**	173
– Inflation linked securities	10	**20**	65
– Money market	10	**958**	1 034
– Derivatives	11	**68**	35
– Loans and receivables including insurance receivables	12	**1 846**	1 478
Deferred income tax	21	**239**	128
Current income tax asset		**83**	–
Reinsurance contracts	13	**142**	99
Cash and cash equivalents	14	**1 737**	812
Total assets		**14 931**	11 038
EQUITY			
Capital and reserves			
Share capital and share premium	15	**1 548**	1 468
Other reserves	16	**540**	721
Retained earnings		**4 925**	3 975
Total equity		**7 013**	6 164
LIABILITIES			
Liabilities arising from insurance contracts	17	**1 778**	1 061
Liabilities arising from reinsurance contracts	18	**1 104**	260
Financial liabilities			
– Investment contracts at fair value through profit or loss	19	**2 161**	1 230
– Borrowings at amortised cost	20	**32**	37
– Derivatives	11	**12**	6
Deferred income tax	21	**1 402**	1 031
Deferred revenue	22	**86**	70
Provisions	23	**65**	54
Trade and other payables	24	**1 278**	1 116
Current income tax liabilities		**–**	9
Total liabilities		**7 918**	4 874
Total equity and liabilities		**14 931**	11 038

Income statement

for the year ended 30 June 2009

R million	Notes	Group 2009	Group 2008
Insurance premium revenue		**5 186**	4 293
Reinsurance premiums		**(870)**	(780)
Net insurance premiums	25	**4 316**	3 513
Fee income from administration business		**2 885**	2 532
Receipt arising from reinsurance contracts		**750**	–
Investment income	26	**236**	210
Net realised gains on available-for-sale financial assets	27	**65**	252
Net fair value (loss)/gains on financial assets at fair value through profit or loss	28	**(9)**	25
Vitality income		**944**	791
Net income		**9 187**	7 323
Claims and policyholders' benefits		**(2 583)**	(2 156)
Insurance claims recovered from reinsurers		**707**	601
Net claims and policyholders' benefits	29	**(1 876)**	(1 555)
Acquisition costs	30	**(1 313)**	(1 132)
Marketing and administration expenses	31,32	**(4 329)**	(3 784)
Recovery of expenses from reinsurers		**223**	148
Transfer from assets/liabilities under insurance contracts		**106**	749
– change in assets arising from insurance contracts	7	**1 292**	791
– change in liabilities arising from insurance contracts – Premium deficiency reserve		**(21)**	–
– change in liabilities arising from insurance contracts – Other	17	**(306)**	(55)
– change in liabilities arising from reinsurance contracts	18	**(859)**	13
Fair value adjustment to liabilities under investment contracts	19	**(35)**	(14)
Profit before impairment and BEE expenses		**1 963**	1 735
Impairment of financial instruments held as available-for-sale	33	**(96)**	–
BEE expenses		**(13)**	(23)
Profit from operations		**1 854**	1 712
Finance costs	34	**(16)**	(52)
Foreign exchange (loss)/profit	35	**(23)**	4
Share of loss from associate		**(1)**	–
Profit before taxation		**1 814**	1 664
Taxation	36	**(590)**	(506)
Profit for the year		**1 224**	1 158
Attributable to:			
Equity holders		**1 212**	1 156
Minority interests		**12**	2
		1 224	1 158
Earnings per share for profit attributable to the equity holders during the year (cents):	37		
– basic		**219.9**	212.9
– diluted		**219.3**	211.1

Statement of changes in equity

for the year ended 30 June 2009

R million	Attributable to equity holders			Minority interest	Total
	Share capital and share premium	Other reserves	Retained earnings		
	(Note 15)	(Note 16)			
30 June 2008					
Balance at 1 July 2007	1 393	912	3 057	–	5 362
Staff scheme shares released	75	–	–	–	75
Minority share buy-back	–	–	–	(2)	(2)
Share-based payments	–	32	–	–	32
Unrealised losses on investments	–	(25)	–	–	(25)
Capital gains tax on unrealised losses on investments	–	4	–	–	4
Realised gains on investments transferred to income statement	–	(252)	–	–	(252)
Capital gains tax on realised gains on investments	–	30	–	–	30
Currency translation differences	–	36	–	–	36
Transfer to hedging reserve	–	(16)	–	–	(16)
Net profit for the period	–	–	1 156	2	1 158
Dividends paid to equity holders	–	–	(236)	–	(236)
Realised loss on minority share buy-back	–	–	(2)	–	(2)
Balance at 30 June 2008	1 468	721	3 975	–	6 164
30 June 2009					
Balance at 1 July 2008	**1 468**	**721**	**3 975**	**–**	**6 164**
Staff scheme shares released	**103**	**–**	**–**	**–**	**103**
Minority share buy-back	**–**	**–**	**–**	**(12)**	**(12)**
Increase in treasury shares	**(23)**	**–**	**–**	**–**	**(23)**
Share-based payments	**–**	**18**	**–**	**–**	**18**
Unrealised losses on investments	**–**	**(253)**	**–**	**–**	**(253)**
Capital gains tax on unrealised losses on investments	**–**	**39**	**–**	**–**	**39**
Realised gains on investments transferred to income statement	**–**	**(65)**	**–**	**–**	**(65)**
Capital gains tax on realised gains on investments	**–**	**9**	**–**	**–**	**9**
Impairment of investments transferred to income statement	**–**	**96**	**–**	**–**	**96**
Capital gains tax on impairment on investments	**–**	**(13)**	**–**	**–**	**(13)**
Currency translation differences	**–**	**(55)**	**–**	**–**	**(55)**
Transfer from hedging reserve	**–**	**43**	**–**	**–**	**43**
Net profit for the period	**–**	**–**	**1 212**	**12**	**1 224**
Dividends paid to equity holders	**–**	**–**	**(269)**	**–**	**(269)**
Realised profit on minority share buy-back	**–**	**–**	**7**	**–**	**7**
Balance at 30 June 2009	**1 548**	**540**	**4 925**	**–**	**7 013**

Of the R4 925 million (2008: R3 975 million) held in retained earnings, R1 570 million (2008: R974 million) is distributable. The balance is held to meet the capital requirements in various Group companies.

Cash flow statement

for the year ended 30 June 2009

R million	Notes	Group 2009	Group 2008
Cash flow from operating activities		**1 211**	385
Cash generated by operations	39.1	**2 649**	1 103
Policyholder net investments		**(1 270)**	(638)
Dividends received		**67**	33
Interest received		**216**	194
Interest paid		**(16)**	(25)
Taxation paid	39.2	**(435)**	(282)
Cash flow from investing activities		**(50)**	(269)
Net disposals/(purchases) of investments		**105**	(76)
Purchase of equipment		**(21)**	(132)
Purchase of intangible assets		**(134)**	(66)
Decrease in loans receivable		**–**	5
Cash flow from financing activities		**(177)**	(334)
Proceeds from issuance of ordinary shares	39.3	**111**	50
Dividends paid to equity holders		**(278)**	(236)
Minority share buy-back		**(5)**	(8)
Loan to share trust participants		**–**	(109)
Repayment of borrowings	39.4	**(5)**	(31)
Net increase/(decrease) in cash and cash equivalents		**984**	(218)
Cash and cash equivalents at beginning of year		**812**	996
Exchange (loss)/gains on cash and cash equivalents		**(59)**	34
Cash and cash equivalents at end of year	14	**1 737**	812

Notes to the annual financial statements

for the year ended 30 June 2009

1. Segment information

(a) Primary reporting format–business segments

R million	Health			Life		Vitality	Holdings	Total
	South Africa	United States of America	United Kingdom	South Africa	United Kingdom			
30 June 2009								
Income statement								
Insurance premium revenue	25	234	679	4 218	30	–	–	5 186
Reinsurance premiums	(2)	(11)	(115)	(730)	(12)	–	–	(870)
Net insurance premiums	23	223	564	3 488	18	–	–	4 316
Fee income from administration business	2 751	–	4	101	–	29	–	2 885
Receipt arising from reinsurance contract	–	–	–	750	–	–	–	750
Investment income – shareholders	31	1	6	148	3	14	21	224
Investment income – policyholders	–	–	–	12	–	–	–	12
Net realised gains on financial instruments held as available-for-sale	–	–	–	65	–	–	–	65
Net fair value loss on financial instruments at fair value through profit or loss	–	–	–	(9)	–	–	–	(9)
Vitality income	–	37	–	–	–	907	–	944
Net income	2 805	261	574	4 555	21	950	21	9 187
Claims and policyholders' benefits	(10)	(376)	(515)	(1 679)	(3)	–	–	(2 583)
Insurance claims recovered from reinsurers	1	37	29	638	2	–	–	707
Net insurance benefits and claims	(9)	(339)	(486)	(1 041)	(1)	–	–	(1 876)
Acquisition costs	–	(11)	(52)	(1 096)	(96)	(58)	–	(1 313)
Marketing and administration expenses	(1 737)	(186)	(371)	(1 050)	(144)	(838)	(3)	(4 329)
Recovery of expenses from reinsurer	–	–	188	–	35	–	–	223
Transfer from assets/liabilities under insurance contracts								
– change in assets arising from insurance contracts	–	–	–	1 209	83	–	–	1 292
– change in liabilities arising from insurance contracts – Premium deficiency reserve	–	(21)	–	–	–	–	–	(21)
– change in liabilities arising from insurance contracts – Other	–	103	50	(479)	20	–	–	(306)
– change in liabilities arising from reinsurance contracts	–	–	–	(788)	(71)	–	–	(859)
Fair value adjustment to liabilities under investment contracts	–	–	–	(35)	–	–	–	(35)
Profit/(loss) before BEE expenses	1 059	(193)	(97)	1 275	(153)	54	18	1 963
Impairment on financial instruments held as available-for-sale								(96)
BEE expenses								(13)
Profit from operations								1 854
Finance costs								(16)
Foreign exchange loss								(23)
Share of loss from associate								(1)
Profit before taxation								1 814
Taxation								(590)
Profit for the year								1 224
Other segment items included in the income statement:								
Depreciation (Note 5)	91	–	1	1	–	–	–	93
Amortisation (Note 6)	41	3	–	15	–	–	–	59
Balance sheet								
Assets arising from insurance contracts	–	–	–	5 374	75	–	–	5 449
Financial assets	437	24	274	5 361	198	79	169	6 542
Reinsurance assets	–	–	56	86	–	–	–	142
Other assets	623	178	146	1 557	34	179	81	2 798
Total assets	1 060	202	476	12 378	307	258	250	14 931
Liabilities arising from insurance contracts	–	36	–	1 650	92	–	–	1 778
Liabilities arising from reinsurance contracts	–	–	–	1 040	64	–	–	1 104
Financial liabilities	32	–	–	2 173	–	–	–	2 205
Other liabilities	380	73	126	1 708	303	240	1	2 831
Total liabilities	412	109	126	6 571	459	240	1	7 918
Capital expenditure	221	9	1	27	–	–	–	258

	Health			Life				
R million	South Africa	United States of America	United Kingdom	South Africa	United Kingdom	Vitality	Holdings	Total
30 June 2008								
Income statement								
Insurance premium revenue	23	667	520	3 076	7	–	–	4 293
Reinsurance premiums	(2)	(70)	(109)	(599)	–	–	–	(780)
Net insurance premiums	21	597	411	2 477	7	–	–	3 513
Fee income from administration business	2 458	–	–	43	–	31	–	2 532
Investment income	39	7	22	109	–	20	13	210
Net realised gains on financial instruments held as available-for-sale	–	–	–	252	–	–	–	252
Net fair value gains on financial instruments at fair value through profit or loss	–	–	–	25	–	–	–	25
Vitality income	–	9	–	–	–	782	–	791
Net income	2 518	613	433	2 906	7	833	13	7 323
Claims and policyholders' benefits	(12)	(629)	(290)	(1 222)	(3)	–	–	(2 156)
Insurance claims recovered from reinsurers	2	56	60	481	2	–	–	601
Net insurance benefits and claims	(10)	(573)	(230)	(741)	(1)	–	–	(1 555)
Acquisition costs	–	(34)	(54)	(956)	(36)	(52)	–	(1 132)
Marketing and administration expenses	(1 582)	(236)	(359)	(775)	(102)	(712)	(18)	(3 784)
Recovery of expenses from reinsurer	–	–	136	–	12	–	–	148
Transfer from assets/liabilities under insurance contracts								
– change in assets arising from insurance contracts	–	–	–	791	–	–	–	791
– change in liabilities arising from insurance contracts	4	45	(59)	(31)	(14)	–	–	(55)
– change in liabilities arising from reinsurance contracts	–	–	–	13	–	–	–	13
Fair value adjustment to liabilities under investment contracts	–	–	–	(14)	–	–	–	(14)
Profit/(loss) before BEE expenses	930	(185)	(133)	1 193	(134)	69	(5)	1 735
BEE expenses								(23)
Profit from operations								1 712
Finance costs								(52)
Foreign exchange profit–unrealised								4
Profit before taxation								1 664
Taxation								(506)
Profit for the year								1 158
Other segment items included in the income statement:								
Depreciation (Note 5)	68	–	1	1	–	–	–	70
Amortisation (Note 6)	29	3	–	8	–	–	–	40
Balance sheet								
Assets arising from insurance contracts	–	–	–	4 165	–	–	–	4 165
Financial assets	347	227	206	4 120	196	47	156	5 299
Reinsurance contracts	–	–	8	69	22	–	–	99
Other assets	520	104	355	345	(11)	134	28	1 475
Total assets	867	331	569	8 699	207	181	184	11 038
Liabilities arising from insurance contracts	–	109	114	794	44	–	–	1 061
Liabilities arising from reinsurance contracts	–	–	–	260	–	–	–	260
Financial liabilities	44	–	–	1 229	–	–	–	1 273
Other liabilities	386	189	127	1 240	120	209	9	2 280
Total liabilities	430	298	241	3 523	164	209	9	4 874
Capital expenditure	177	1	–	22	–	–	–	200

Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

1. Segment information (continued)

(b) Secondary reporting format – geographical segments

Discovery's six business segments operate in three main geographical areas:

	South Africa		United States of America		United Kingdom		Total	
R million	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Insurance premium revenue	**4 243**	3 099	**234**	667	**709**	527	**5 186**	4 293
Fee income from administration business	**2 881**	2 532	**–**	–	**4**	–	**2 885**	2 532
Vitality income	**907**	782	**37**	9	**–**	–	**944**	791
Total assets	**13 946**	9 931	**202**	331	**783**	776	**14 931**	11 038
Capital expenditure	**248**	199	**9**	1	**1**	–	**258**	200

Revenues are allocated based on the country in which the insurance or investment contracts are issued or fee income and investment returns are earned.

Total assets and capital expenditure are allocated based on where the assets are located.

2. Management of insurance and financial risk

Discovery enters into contracts that carry insurance risk or financial risk or both. The following table analyses the various contracts offered by the Group and the risks these contracts transfer.

Contracts offered by the Group	Contract type	Insurance risk	Financial risk
Discovery Life			
– Discovery Life Plan	Insurance contract	√	
– Health Plan Protector	Insurance contract	√	
– Discovery Retirement Optimiser: Linked	Unit-linked insurance contract	√	√
– Discovery Retirement Optimiser: Guaranteed	Insurance contract	√	
– DiscoveryCard Protector	Insurance contract	√	
– Global Education Protector	Insurance contract	√	
– Group Life	Insurance contract	√	
– Destiny Provident Fund	Unit-linked investment contract		√
– Destiny Benefit Fund	Unit-linked investment contract		√
Discovery Invest			
– Unit-linked contracts without significant insurance risk	Unit-linked investment contract		√
– Unit-linked contracts with significant insurance risk	Unit-linked insurance contract	√	√
– Guaranteed return plans	Insurance contract	√	√
– Fixed annuities	Insurance contract	√	√
Destiny Health			
– Destiny Health Plan	Insurance contract	√	
PruHealth			
– Individual product	Insurance contract	√	
– SME product	Insurance contract	√	
– Corporate product	Insurance contract	√	
PruProtect			
– PruProtect Life Plan	Insurance contract	√	

The Group's insurance risks and financial risks are discussed in detail below.

2.1 Insurance risks

The insurance risk under any one insurance contract is the possibility of a claim arising from that contract and the uncertainty of the amount of the resulting claim. This risk is random and therefore unpredictable.

A large portfolio of independent but similar insurance contracts, allow for the use of probability theory to predict the number and value of claims over a defined period. Insurance risk, when considering a large portfolio of insurance contracts, is thus the probability that the actual amount of claims over a defined period is different to expected. This could in turn result in the value of insurance liabilities being over or under estimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Discovery reduces claims variability by underwriting policies and by using reinsurance to protect against single large claims.

Discovery's insurance contracts transfer the following risks:

- automatic increase take-up rate;
- capital adequacy requirements and protection against adverse experience;
- concentration risk;
- currency risk;
- expense risk;
- lapse and surrender risk;
- liquidity risk;
- market and mismatching risk;
- modelling and data risk;
- operational/implementation risk;
- policy wording/legal risks;
- regulatory risk;
- reputational risk;
- tax risk; and
- underwriting experience risk.

The following section will briefly describe the various contacts offered by the subsidiaries within the Group, the insurance risks associated with those products and the way the Group manages these risks.

2.1.1 Discovery Life

Product descriptions

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives.

Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health, Discovery Vitality, DiscoveryCard and Discovery Invest.

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. The plan covers:

- life cover benefits;
- disability benefits;
- severe illness benefits; and
- income continuation benefits.

The Life Fund forms the financial foundation of the Life Plan. The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary. The Life Fund can also be linked to global investment markets and a selection of currencies via the Global Linkage Benefit to provide additional protection in real terms and in foreign currencies. The Cover Integrator allows for an increase in the Life Fund at a significantly reduced premium and further rewards policyholders for managing their health by engaging in Vitality.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.1 Discovery Life (continued)

The key risk benefits are then defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit;
- Global Education Benefit; and
- Global Health Protector.

The Life plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health Discovery Life policyholders, through the Integrator benefit, could receive premium discounts and refunds of premiums.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any 10 year period.

Premiums are payable monthly. There are four funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns, annually increasing premium patterns and ten-yearly stepped premium funding patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

At 30 June 2009 there were 224 500 life plans with an annualised premium income of R2 960 million (2008:198 000 life plans with an annualised premium income of R2 426 million). The annualised premium income is calculated by multiplying the monthly in-force premium at 30 June by 12 months.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit and Health Dividends. The Health Plan Protector can be added to the Life Plan or can be bought on a stand alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

At 30 June 2009 there were 78 000 Health Plan Protector policies with an annualised premium income of R226 million (2008: 92 000 Health Plan Protector policies with an annualised premium income of R226 million).

Discovery Retirement Optimiser

The Retirement Optimiser offers funding for retirement and offers unique benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms.

As at 30 June 2009 there were 37 100 Discovery Retirement Optimiser policies of which 35 700 policies are linked to the Life Plan. These policies have an annualised premium income of R534 million (At 30 June 2008 there were 29 200 Discovery Retirement Optimiser policies, 27 900 of these policies were linked to the Life Plan, with an annualised premium income of R379 million).

DiscoveryCard Protector

The DiscoveryCard Protector will cover the outstanding balance on the DiscoveryCard in the event of death, disability or severe illness. It further provides a monthly benefit for a defined period equal to the average DiscoveryCard spend in the six month period prior to the life changing event.

At 30 June 2009 there were 19 800 DiscoveryCard Protector policies with an annualised premium income of R15.5 million (2008: 24 500 policies with an annualised premium income of R18 million).

Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a standalone basis.

At 30 June 2009 there were 5 200 standalone Global Education Protector policies with an annualised premium income of R11 million (2008: 2 300 standalone Global Education Protector policies with an annualised premium income of R5 million).

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a Group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2009 there were 212 000 lives covered under group policies with an annualised premium income of R456 million (2008: 190 000 lives covered under group policies with an annualised premium income of R352 million).

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of every investor.

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows you to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- Endowment: A medium term investment vehicle that provides tax efficiencies for an investor with a five to ten year time horizon.
- Flexible investment: A flexible investment vehicle that allows tailor made investments solutions whilst providing immediate access to funds.
- Retirement plan: A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- Preserver plans: An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- Retirement income plan: Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest Funds. The funds include:

- Discovery Invest funds: Includes a comprehensive range of Discovery Invest's single and multi-manager funds across a range of asset classes.
- Dynamically protected funds: Unique Discovery Invest Funds that are designed to protect investors against the major risks associated with investment choice, for example underperformance by fund, asset class and geographic region.
- Special purpose funds: These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- External funds: Discovery Invest provides a broad range of externally managed funds.

Integrating Invest and Discovery Life products reduces the cost of investment and enhances benefits available under the Invest plans.

- Investment Integrator: Uses *inter alia* the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees.
- Annuity Integrator: By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- Guaranteed return plans: Guaranteed return plans include the following –
  - The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
  - The Guaranteed Income Plan provides a guaranteed return at the end of five years on the chosen percentage of the lumpsum contribution. The remainder of the lumpsum will provide a monthly or annual income.
- Upfront investment Integrator: Provide an upfront boost to the investment values provided on the Endowment Plan.

At 30 June 2009 there were 13 697 Invest plans with an annualised premium equivalent of R548 million (2008: 4 835 Invest plans with an annualised premium equivalent of R206 million). The annualised premium equivalent includes single premiums at 10% of the single premium.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.1 Discovery Life (continued)

Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined in note 2.2.

The insurance related cash outflows (e.g. benefit payments, administrations expenses, etc.) are covered by expected future cash inflows (predominantly future premiums). This can clearly be seen by considering the future net cash flows arising from insurance contracts. These cashflows are calculated in accordance with the accounting policies.

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2009					
Cash flow	**1 024**	**3 110**	**2 713**	**2 923**	**(1 707)**
2008					
Cash flow	908	2 611	2 325	1 825	(5 454)

The value of assets under insurance contracts of R5 076 million (2008: R3 920 million) is calculated by discounting the expected future cash flows shown above. The effect of discounting is R2 344 million (2008: R2 075 million). The cash flows exclude current policyholder liabilities of R643 million (2008: R370 million). The discount rate is set with reference to the prevailing risk free gilt yield. The value of assets under insurance contracts is subject to interest rate risk.

There is thus a risk that a change in the risk free gilt yield could cause a change in the value of the assets under insurance contracts.

Included in insurance liabilities are outstanding claims and incurred but not reported claims. These are mostly short term in nature and have consequently been matched with cash.

The risk under the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk. In the event of the reinsurer defaulting, the investments held by the reinsurer to hedge their risk relating to the Global Linkage Benefit, will be ceded to Discovery Life. Discovery Life reviews the assets held by the reinsurer on a six monthly basis.

Automatic increase take-up rate

The majority of Discovery Life Plan policyholders have selected policies with automatic premium and benefit increases.

Recurring premium Invest plans have various automatic increase options ranging from 0% up to 20% per annum. A CPI linked option is also available. The majority of Invest policyholders have selected plans with automatic benefit increases.

The automatic increases increase the profitability of the plans to Discovery over time since the cash flows under the policy are maintained in real terms.

These automatic increases are contractual, however, if a policyholder is no longer in a position to meet the premium increases, they may elect to change their policy to a plan with lower premium and benefit increases. In practice it has been found that most of the policyholders continue with their initial funding plans. However, for valuation purposes it has been assumed that all policyholders change to plans with minimum premium increases without changing the cover levels as at the valuation date. This is the worst case scenario and thus acts as a margin.

Lapse and surrender risk

Policyholders have the option to discontinue or reduce contributions at any time.

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped. On Invest plans, the surrender value may also exceed the policy value, net of expenses, at early durations.

On Life Plans there is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy even where reserves are positive.

There is a further risk that Life Plan withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings under Life Plans are dependant on the number of policies remaining in future years and thus future earnings are dependant on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

Future earnings under Investment plans are dependant on the value of assets under management and thus future earnings are dependant on the withdrawal and surrender rate.

The lapse risk is managed as follows:

- *Product design*

  Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members who have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal on Life Plans is reduced.

- *Commission clawback*

  Discovery Life predominantly distributes via independent brokers and tied agents.

  Commissions are clawed back from intermediaries where a policy lapses within the first two years of inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% over the two year period.

- *Target market*

  Discovery operates predominantly in the affluent end of the insurance market. In general the affluent market is less impacted by changes in the economic environment than the lower income market.

- *Client relationships*

  All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policies are conserved.

- *Reinsurance*

  Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses. The reinsurance protects Discovery Life against the loss of assets under insurance contracts in the event that the aggregate lapse rate exceeds a predefined level.

- *Experience monitoring*

  Lapse experience is monitored on a monthly basis and the data is analysed to establish possible trends for which management action can be taken.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected on Life Plans. This could arise as a result of the number of claims or the value of claims being higher than expected.

On guaranteed annuities there is a risk that mortality experience is lower than expected and thus that income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2009. Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.

Invest plans are not directly impacted by mortality and morbidity risks. The Annuity Integrator's Ill-health booster boosts retirement income on severe illness. The Annuity Integrator's Longevity booster boosts retirement income every 10 years. The costs of the benefits were allowed for in the product design and pricing of the benefits.

Selection risk is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience on Life Plans or lower mortality on guaranteed annuity policies.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.1 Discovery Life (continued)

The risks are managed through:

- *Product design and pricing*

  Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age. Discovery Life has the unique ability to take additional rating factors into account for example the current medical scheme claims and life style factors.

  All new premium rates are reviewed and approved by the statutory actuary. Product integration between the different product offerings in the Discovery Group helps to attract healthier lives than average in the market leading to positive selection.

  For certain of the product-options offered under the Life Plan, Discovery Life has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed. Where guarantees are offered, Discovery guarantees that premiums can only be reviewed every ten years and increased by a maximum of 25%. The guarantee provided to the policyholder will however be strengthened based on policyholder's actual annual historic Vitality status.

  Discovery Life predominantly operates in the high end of the insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

  Group business can be reviewed at least once every two years. AIDS risk is specifically allowed for in the pricing of individual groups.

  Overall, Discovery Life has experienced better than anticipated claims experience during every reporting period since its inception in 2001.

- *Underwriting*

  Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. For individual policies with lump sum life cover, the minimum requirement will be an HIV test.

  Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for.

  Premium loadings and exclusions are applied where high risks are identified. For Integrated policies, Discovery Life can dynamically adjust certain premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.

  Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.

  Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance*

  Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.

  In addition, reinsurers provide specialist advice when designing new products.

  Discovery Life utilises surplus reinsurance to reinsure the proportion of each risk in excess of R3 million as at the policy inception. Discovery Life is thus protected against large individual claims.

  In addition catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual and group business are covered by catastrophe reinsurance.

- *Experience monitoring*

  Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis.

Expenses

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies or a reduction in the assets under management. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model doesn't accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

The original actuarial model was tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any modeling changes.

The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from modern administration systems and subjected to detailed checks together with high level reasonability checks. Discovery Life does not have any legacy systems that could impact on the data quality.

Operational/Implementation risk

Segregation of duties ensures multiple checks on process and further protects against the risk of fraud.

Discovery does not have any legacy systems and processes to deal with thereby reducing operational risk.

Regulatory risk

Discovery Life operates in a highly regulated environment which is currently being scrutinised and questioned by both consumers and regulators. This has resulted in the constant review of the in force regulations and the interpretation thereof. The regulatory risk can thus be defined as the potential detrimental impact unexpected changes in regulations (or interpretation thereof) may have on Discovery Life.

Discovery Life is a member of the Association for Savings and Investment SA, an industry wide body that engages in discussions with policymakers and regulators.

Although Discovery endeavors to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by Discovery Life have to be signed off by the independent Statutory Actuary.

Discovery Life's compliance department enhances regulatory compliance through audits and by monitoring developments in the regulatory environment.

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

Currency risk

All of Discovery Life's insurance benefits are Rand denominated, with the exception of the Global Linkage Benefit, a benefit where the sum insured can be linked to global investment markets or a selection of currencies. The Global Linkage Benefit is fully reinsured.

Discovery Life thus does not have significant net currency risk.

Capital adequacy requirements and protection against adverse experience

There is a risk that future premiums, investment return and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are maintained in all insurance liabilities. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.1 Discovery Life (continued)

In accordance with the Long-term Insurance Act (1998) Discovery Life is required to demonstrate solvency to the Registrar of Long-term insurance. Discovery Life thus needs to maintain sufficient shareholder assets, over and above the assets required to fund shareholder liabilities, to fund the Capital Adequacy Requirement (CAR).

The CAR is calculated in accordance with the Professional Guidance Note (PGN) 104 as issued by the Actuarial Society of South Africa (ASSA). The CAR calculation is intended to approximate a risk based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- lapse and withdrawal risk;
- fluctuations in mortality and morbidity experience;
- fluctuation in expense experience;
- AIDS risk;
- risk of asset liability mismatches;
- risk of worse than expected investment returns;
- operational risk; and
- credit risk.

Discovery Life regularly reviews the capital position and also considers various new business scenarios. Typically a five year new business projection horizon is allowed for and the capital position is assessed at each valuation date during the projection to ensure an acceptable capital cover is maintained.

No management action was allowed for to offset adverse conditions.

At 30 June 2009 the Statutory Capital Adequacy Requirement was R230 million and was covered 7.7 times (2008: the Statutory Capital Adequacy Requirement was R174 million and was covered 7 times).

Liquidity risk

Liquidity risk arises due to a timing mismatch between the assets and liabilities.

Discovery maintains sufficient liquid assets to meet short term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, Discovery Life's expected outflows are mostly long term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in 2.2.6, Discovery invests primarily in liquid financial assets. The liquidity risk on the existing portfolio is thus relatively small.

For policies where the sum insured at inception exceeds R3 million the excess above R3 million is reinsured providing stability in claims experience and further reducing the liquidity risk.

The undiscounted expected cash flows under in-force insurance, net of tax and reinsurance, as at 30 June were as follows:

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2009					
Cash flow	**818**	**2 814**	**4 313**	**10 758**	**50 888**
2008					
Cash flow	999	2 976	4 262	12 130	79 521

Note that these cash flows differ from those disclosed on page 114, since these are based on best estimate cash flows not taking into account the margins included within the liability calculations. No allowance has been made for new business and related expenses.

Policy wording/legal risks

There is a risk that Discovery could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards Discovery Life. Discovery Life may thus not be able to apply management policies to reduce risk.

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the chief medical officer and legal advice is obtained where necessary.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.

Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management review all product offerings to minimise the reputational risk. All products are approved by the statutory actuary prior to launch.

Reputational risk may also arise if Invest Plans experience worse investment returns than competitors. This may lead to lower future new business and higher surrenders. This risk is mitigated through the use of reputable experienced fund managers and unique, innovative products covering specific risks.

Concentration risk

- *Claims experience risk*

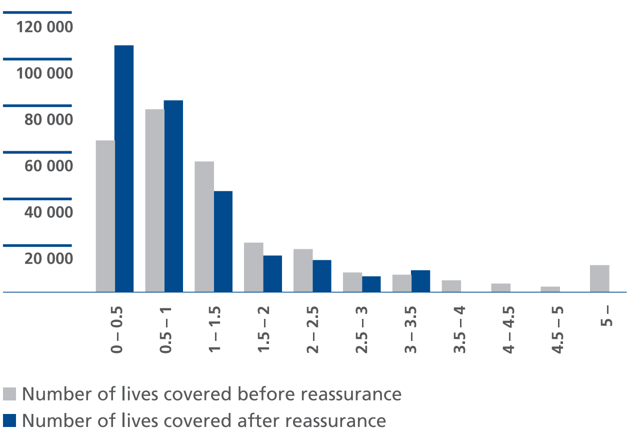
  There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location.

  Discovery's exposure to group business is however relatively small at this stage and this risk is mitigated through catastrophe reinsurance.

  Discovery Life maintains a well diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash. The Catastrophe reinsurance covers single event disasters for up to R100 million where the net of reinsurance impact is greater than R10 million.

  Reinsurance removes the exposure to large individual claims, as demonstrated by the table below:

Impact of reassurance on exposure to large claims
(Sum assured R million)



The distribution of policies by sum assured is thus shifted towards lower sum assured.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.1 Discovery Life (continued)

- *Withdrawal concentration risk*

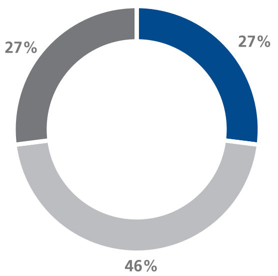
There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

Discovery Life has a well diversified book of business by source of new business and spread across more than 7 200 (2008: 7 000) brokers and agents.

The maximum exposure of Discovery Life to a single intermediary is smaller than 1.5% and to a group of intermediaries is 4.7% (2008: 5.2%) in number of policies.

The distribution of API by concentration to an intermediary group is given in the graph below. A large concentration is defined as an intermediary group that has written more than 1 000 Discovery Life policies. A small concentration is defined as an intermediary group that has written less than 100 policies.

API concentration by intermediary



- Small concentration (0 – 99 policies)
- Medium concentration (100 – 999 policies)
- Large concentration (1 000+ policies)

Sensitivity analysis

The financial impact of the key risks that Discovery Life is exposed to, can be demonstrated by considering the sensitivity of the financial results to a hypothetical change in the underlying assumptions or prevailing market conditions.

Although the sensitivities demonstrate the impact of a change in assumption, the results generally cannot be extrapolated to demonstrate the impact on future earnings and earnings forecasts.

For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for any management action, for example premium increases, to react to the worse than expected experience.

The ranges of sensitivity were chosen for illustration purposes and do not represent the extremes of possible experience.

Two sets of sensitivities were considered. The first set shown under insurance risks considers a change in the long term assumption used in the projection model. The second set shown under market fluctuation at valuation date only considers the impact of a possible change in the market condition on the value of the non-linked assets at valuation date and thus no changes are made to long term projection assumptions.

The following sensitivities are provided under insurance risk:

Lapses: The lapse, surrender and withdrawal rates are increased or decreased across all policies and investment plans.

Renewal Expenses: Renewal expense per policy increased or decreased across all policies and investment plans.

Mortality and morbidity: The mortality rate, disability rate and severe illness rates are increased and decreased across all policies and investment plans.

Long term investment return and inflation: A parallel shift is assumed in the yield curve. The investment return, inflation, renewal expense inflation and inflation linked premium increases are adjusted consistently.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2009 assumptions	**5 076**	
Lapses +10% (e.g. from x% to 1.1x%)	**4 763**	**6.2**
Lapses –10% (e.g. from x% to 0.9x%)	**5 421**	**(6.8)**
Investment return and inflation –1% (e.g. from 5% to 4%)	**5 315**	**(4.7)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**4 857**	**4.3**
Expense assumption +10%	**4 973**	**2.0**
Expense assumption –10%	**5 179**	**(2.0)**
Mortality and Morbidity +10%	**4 153**	**18.2**
Mortality and Morbidity –10%	**6 055**	**(19.3)**
Base: June 2008 assumptions	3 920	
Lapses +10% (e.g. from x% to 1.1x%)	3 743	4.5
Lapses –10% (e.g. from x% to 0.9x%)	4 107	(4.8)
Investment return and inflation –1% (e.g. from 5% to 4%)	4 063	(3.6)
Investment return and inflation +1% (e.g. from 5% to 6%)	3 784	3.5
Expense assumption +10%	3 830	2.3
Expense assumption –10%	4 010	(2.3)
Mortality and Morbidity +10%	3 188	18.7
Mortality and Morbidity –10%	4 710	(20.1)

Liabilities arising from insurance contracts consists of outstanding reported claims, IBNR claims and long-term liabilities relating to fixed and guaranteed contracts. For outstanding reported claims and IBNR claims any deviation from the best estimate liabilities would have a direct impact on profit. For long-term liabilities relating to fixed and guaranteed contracts the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2009 assumptions	**464.9**	
Lapses +10% (e.g. from x% to 1.1x%)	**464.8**	**0.0**
Lapses –10% (e.g. from x% to 0.9x%)	**465.0**	**0.0**
Investment return and inflation –1% (e.g. from 5% to 4%)	**484.6**	**(4.2)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**446.5**	**4.0**
Expense assumption +10%	**465.4**	**(0.1)**
Expense assumption –10%	**464.4**	**0.1**
Mortality and Morbidity +10%	**465.0**	**0.0**
Mortality and Morbidity –10%	**464.8**	**0.0**

2.1.2 PruHealth

Product description

PruHealth offers 3 main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.2 PruHealth (continued)

- Starter discounts: Up to 30% based on answers to healthcare questions.
- Renewal discounts: Discounts are offered at renewal depending on claims and Vitality status.
- Vitality rewards: Full Vitality package including gym offering and healthcare related rewards.

SME product

This is an age-rated product offered to small groups (2–100) via the broker market. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Renewal discounts for employers: Discounts are offered at renewal depending on loss ratio.
- Cashback: Employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- Vitality rewards: A full Vitality package is offered including gym offering and healthcare related rewards.

Corporate product

This is a product with fixed premiums by age that is fully experience rated each year. It is offered by brokers and employee benefit consultants. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Cashback: Companies can select their desired level of cashback. If selected, employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- Vitality rewards: A full Vitality package is offered including gym offering and healthcare related rewards.

Insurance risks

PruHealth takes a proactive approach to managing its risk and each business unit responsible for the five risk groupings identified below have initiated a series of risk management processes to ensure that they are adequately controlled.

The key areas of risk are premium pricing, claims volatility and failing to meet target levels of business. Monthly meetings are held to review actual experience against original pricing assumptions. The standard terms and conditions applicable to the company's products mitigate the risk of late reporting of claims. Current claims experience is monitored against expected to ensure that PruHealth's current pricing assumptions are reasonable. Information is fed into the pricing reviews conducted by the Actuarial and Underwriting department. On a quarterly basis, the financial forecast is reviewed against emerging experience. PruHealth measures profitability and solvency using a financial model of the business that projects in force and expected new business cashflows.

PruHealth use Milliman, an external actuarial consultancy, for external peer review and formal product sign off. Milliman will continue to perform ongoing reviews of the results of emerging experience against our pricing assumptions. Their review will focus on underwriting, claims experience, reserving, demographics and new product pricing.

Excess of loss reinsurance is utilised to mitigate the risk of undue concentrations of insurance risk. Due to the short tail nature of the company's risks all claims are expected to be settled within 12 months of reporting and accordingly, the company has not presented a comparison of actual claims compared with previous estimates. Loss development tables are not provided since all claims are typically settled within a year of the claim arising.

With effect from 1 October 2006, PruHealth entered into a quota share agreement effectively reinsuring 50% of the risk profit of all new business written from that date for a period of approximately seven years. This agreement was amended, effective from 1 October 2007, extending the period of reinsurance by approximately five years and increasing the reinsurer's limit of liability (including, without limitation, for benefits or expenses allowance) from GBP15 million to GBP25 million in excess of the total premium ceded to the reinsurer. This agreement was further amended in December 2008 increasing the reinsurer's limit of liability to GBP35 million in excess of the total premium ceded to the reinsurer. The GBP35 million limit of liability had been reached by the end of June 2009.

During June 2009, PruHealth entered into a new quota share agreement effectively reinsuring 18% of the risk profit of two tranches of business, the in-force tranche as at 31 December 2008 and the new business tranche of new business written in the 12 months ending 31 December 2009. This agreement made available GBP16 million of reinsurance funding. GBP14 million of the reinsurance funding had been received by the end of June 2009.

Capital adequacy requirements and protection against adverse experience

PruHealth maintains shareholder capital to meet substantial deviations in experience.

At 30 June 2009 the Statutory Capital Adequacy Requirement was GBP13 million (2008: the Statutory Capital Adequacy Requirement was GBP18.2 million).

IBNR calculation

The PruHealth IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. Due to the variability of estimates for the recent months, an adjustment is made to the claims for more recent months to allow for the number of pre-authorised claims and the expected cost per pre-authorised event.

The data used for the chain ladder calculation includes all claims processed from October 2004 to the end of June 2009. Adjustments are made to the IBNR using pre-authorised claims for the period June 2008 to June 2009.

A 10% increase in assumed IBNR will result in a R10 million (2008: R5 million) increase in the IBNR provision.

2.1.3 PruProtect

Product description

PruProtect Plan Overview

The PruProtect plan is a lifestyle protection plan which allows customers to select from a menu of benefits which includes:

- life cover;
- serious illness cover;
- capital disability cover;
- income protection insurance;
- unemployment cover;
- waiver of premium on death, serious illness and/or incapacity; and
- additional optional serious illness cover for children.

Structure

The PruProtect plan has at its basis a Plan Account. The Plan Account defines the amount paid out under any benefit that is attached to it. The benefits that are attached to the Plan Account are expressed as a percentage of the Plan Account's value.

The Plan Account can be structured to provide cover that is level, increasing or decreasing.

The PruProtect Plan can be written on a single or joint life basis and cover may be stand alone or limited to the Plan Account whereby claims would accelerate payment of the Plan Account. Premiums are payable monthly in advance and can be guaranteed or reviewable. The plan doesn't offer any surrender value.

The PruProtect Plan provides extensive severity based cover for serious illness.

Insurance risks

PruProtect takes a proactive approach to managing its risk. Risk management processes are employed to ensure business units identify and control the risks to which they are exposed. PruProtect is a 50%/50% joint venture between Prudential UK and Discovery. Innovation is a strong focus of PruProtect and is driven by the combined experience of Prudential UK and Discovery. PruProtect benefits from internal as well as the government structures of Prudential and Discovery.

The key insurance risks of the business are driven by the mortality and morbidity of PruProtect policyholders. Claims experience and price competitiveness are reviewed at each monthly Management Committee. Experience analysis motivates changes to the assumptions used in the actuarial model. The same model is used for valuation and forecasting.

The life, serious illness, disability and income protection benefits of the PruProtect product are reinsured with a maximum retention of 50%. The unemployment benefit offered as part of the PruProtect product is fully reinsured and is underwritten by St Andrew's Group.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.3 PruProtect (continued)

Market and mismatching risk

The insurance related cash outflows (e.g. benefit payments, administration expenses, etc.) have been matched predominantly with future premiums. The valuation discount rate is set with reference to the prevailing risk free gilt yield. The value of assets under insurance contracts is subject to interest rate risk. There is thus a risk that a change in the risk free gilt yield could cause a change in the value of the assets under insurance contracts. PruProtect has no investment or embedded derivative type products.

Lapse risk

Policyholders have the option to discontinue or reduce contributions at any time.

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped.

There is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy even where actuarial reserves are positive.

There is a further risk that withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

The lapse risk is managed as follows:

- *Product design*

  Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Vitality provides unique rewards and benefits to policyholders which have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.

- *Commission clawback*

  PruProtect predominantly distributes via independent intermediaries.

  Commissions are clawed back from intermediaries where a policy lapses early on. The clawback period is currently either 2 or 4 years. The amount of commission clawback depends on the amount of unearned commission over the period.

- *Client relationships*

  All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policy is conserved.

- *Experience monitoring*

  Lapse experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide credible results, so significant reliance is placed on reinsurers' advice as well as experience from Discovery Life and Prudential.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected.

Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

- *Product design and pricing*

  Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age.

  For certain of the product-options offered, PruProtect has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered.

- *Underwriting*

  Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. This is achieved by different levels of medical underwriting, depending on the answers to medical questions on the application form. Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified.

  Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance*

  Reinsurance protects against volatility in claims experience and against an accumulation of risk. In addition, reinsurers provide specialist advice when designing new products.

- *Experience monitoring*

  Experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide credible results, so significant reliance is placed on reinsurers' advice as well as experience from Discovery Life and Prudential.

Expenses

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model doesn't accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

Any changes made to the model are reviewed.

The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from modern administration systems and subjected to detailed checks together with high level reasonability checks. PruProtect does not have any legacy systems that could impact on the data quality.

Operational/implementation risk

Segregation of duties ensures multiple checks on process and further protects against the risk of fraud.

PruProtect does not have any legacy systems and processes to deal with thereby reducing operational risk.

Regulatory risk

PruProtect operates in a highly regulated environment. The regulatory risk can be defined as the potential detrimental impact of unexpected changes in regulations (or interpretation thereof).

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.1.3 PruProtect (continued)

Although PruProtect endeavors to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by PruProtect is subject to a rigorous sign off process.

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

Currency risk

All of PruProtect's insurance benefits are Sterling denominated as all business is sold in the UK market.

A significant part of operational expenses are Rand denominated as systems and administration are based in South Africa. This creates a potential mismatching risk.

Results are published in Rands in Discovery's Annual Financial Statements creating movement in the values due to currency fluctuations.

Solvency capital requirements and protection against adverse experience

There is a risk that future premiums, investment return and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are allowed for in the calculation of all insurance liabilities.

The FSA (Financial Services Authority) provides guidance and regulation under the Financial Services and Markets Act of 2000. The Prudential sourcebook for Insurers (INSPRU) contains standards for capital management.

Capital requirements are calculated based on the concept of two pillars:

- Pillar 1, which covers public solvency information that appears within the FSA Returns on the basis of prescriptive rules. This includes the statutory valuation of liabilities together with a prescribed measure of additional capital, the Long Term Insurance Capital Requirement (LTICR).
- Pillar 2, the Individual Capital Assessment (ICA), which covers a confidential company specific assessment of solvency. This assessment is done on a realistic basis with the aim to protect against risks up to the 99.5 percentile over a 1 year period.

The LTICR is a minimum required margin for solvency on the statutory valuation basis and covers the following basic risks:

- death risk;
- expense risk;
- market risk; and
- health risk.

The ICA is a risk based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- lapse and withdrawal risk;
- fluctuations in mortality and morbidity experience, including catastrophe risk;
- expense risk;
- mis-selling risk;
- credit and default risk;
- risk of worse than expected investment returns;
- operational risk;
- exchange rate risk; and
- tax risk.

The amount of capital that ultimately needs to be held by a life insurance company in the UK is the larger of the Pillar 1 and Pillar 2 results.

Liquidity risk

Liquidity risk is defined in note 2.2. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

PruProtect maintains sufficient liquid assets to meet short term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, PruProtect's expected liabilities are mostly long term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

Policy wording/legal risks

There is a risk that PruProtect could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings or complaints by policyholders.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards PruProtect. PruProtect may thus not be able to apply management policies to reduce risk.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations and are subject to a rigorous sign-off process.

PruProtect management review all product offerings to minimise the reputational risk. All products are subject to a rigorous sign off process.

2.1.4 Destiny Health

Destiny Health historically wrote contracts providing health insurance coverage to individual and small employer groups in select markets within the United States of America.

The Destiny Health business was written in nine jurisdictions (Illinois, Wisconsin, Massachusetts, Washington DC, Virginia, Maryland, Texas, Colorado and Michigan) and on the paper of five insurance carriers (Destiny Health Insurance Company, Guardian Life Insurance Company, Clarendon National Insurance Company, Stonebridge Life Insurance Company and Tufts Insurance Company). Apart from the Destiny Health Insurance Company, all other paper is rated A- and higher by A.M. Best Company. Different reinsurance and risk sharing agreements govern the retained risk to Destiny Health in each of these markets and on each of the licenses.

Destiny Health has been winding down its health insurance exposure since early 2008. The wind-down process is comprehensive and required partner and regulatory approval and assistance in all nine jurisdictions. Transfer solutions are in place for all business segments and aim to fully exhaust health insurance risk exposure by the end of 2009. Most of the business is being sold to Trustmark Life Insurance Company, an Illinois based insurance carrier. Active business is still appropriately managed as outlined below.

Destiny Health has substantially completed its wind-down process. Current membership is below 500, down from a historic high in excess of 60 000. Insurance risk exposure primarily relates to the adequacy of actuarial estimates (claims reserves related to unpaid claims experience) and ongoing exposure on active membership. Claims reserves amounted to US$3.1 million at 30 June 2009 and has mostly restated positively throughout the wind-down period. Claim payments and inventory levels are monitored on a daily basis and claims reserve adequacy is independently verified every six months. Reinsurance remains in place to protect against high claim exposures in excess of US$500 000 per member. Remaining membership will transition quickly in the coming months, with 170 active members anticipated on 1 October 2009 and full transition to be complete by 1 January 2010.

At 30 June 2009 the Statutory Capital Adequacy Requirement was US$1.5 million (2008: the Statutory Capital Adequacy Requirement was US$3.4 million).

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.2 Financial risk

Discovery is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets, reinsurance liabilities and insurance assets and insurance liabilities. Financial risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

- Equity risk: The impact of changes in equity prices and dividend income.
- Interest rate risk: The impact of changes in market interest rates.
- Currency risk: The impact of changes in foreign exchange rates.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash being available to meet commitments as and when they become due.

Financial risks are managed by Discovery as follows:

- Discovery has appointed reputable external asset managers to manage its investments.
- The actuarial committee reviews the overall matching of shareholder and policyholder assets.
- The shareholders assets investment committee ("SAIC") is a sub-committee of the Executive committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The SAIC also sets exposure limits for exposures to individual counterparties.
- Discovery periodically engages external consultants to review past investment decisions.
- The investment committee is a sub-committee of the SAIC and meets monthly to make practical decisions regarding Discovery's liquidity and foreign currency exposure.

Discovery has not significantly changed the processes used to manage its risks from previous periods.

To assist in the analysis of the financial risks that Discovery is exposed to, the balance sheet has been divided into the following categories:

- unit-linked investment contracts;
- unit-linked insurance contracts;
- other insurance contracts;
- shareholder financial assets and liabilities; and
- shareholder non-financial assets and liabilities.

The table on page 110 lists the contracts that Discovery offers and the category they are included in for financial risk disclosures.

The required disclosures for interest rate, equity price and currency risks are given separately for each category listed above. Credit risk and liquidity risk disclosures are provided for shareholder assets and liabilities only.

The following tables reconcile the Group balance sheet to the classes of risks and the categories listed above:

At 30 June 2009					Shareholder	
R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Financial assets and liabilities	Other assets and liabilities
Assets arising from insurance contracts	5 449	–	(219)	5 668	–	–
Equity securities						
At fair value through profit or loss:						
– listed securities	1 341	1 072	266	–	3	–
– unlisted securities	9	4	5	–	–	–
Available-for-sale:						
– listed securities	1 119	–	10	55	1 054	–
Equity linked notes						
At fair value through profit or loss:						
– unlisted securities	635	343	292	–	–	–
Available-for-sale:						
– unlisted securities	58	–	–	58	–	–
Debt securities						
At fair value through profit or loss:						
– listed securities	185	102	17	66	–	–
Available-for-sale:						
– listed securities	303	–	–	19	284	–
Inflation linked securities						
At fair value through profit or loss:						
– listed securities	5	5	–	–	–	–
Available-for-sale:						
– listed securities	15	–	–	–	15	–
Money market securities						
At fair value through profit or loss:						
– listed securities	457	404	53	–	–	–
Available-for-sale:						
– listed securities	501	–	–	128	373	–
Derivatives						
– hedges	68	–	–	–	68	–
Loans and receivables:						
– insurance receivables	727	–	–	–	727	–
– other	1 119	10	–	–	1 109	–
Reinsurance contracts	142	–	–	142	–	–
Cash and cash equivalents	1 737	224	–	113	1 400	–
Other assets	1 061	–	–	–	–	1 061
Total assets	14 931	2 164	424	6 249	5 033	1 061
Liabilities arising from insurance contracts	1 778	–	–	1 778	–	–
Liabilities arising from reinsurance contracts	1 104	–	–	1 104	–	–
Investment contracts at fair value through profit or loss	2 161	2 161	–	–	–	–
Borrowings at amortised cost	32	–	–	–	32	–
Derivatives						
– hedges	12	–	–	–	12	–
Trade and other payables	1 278	3	–	–	1 275	–
Other liabilities	1 553	–	–	–	–	1 553
Total liabilities	7 918	2 164	–	2 882	1 319	1 553

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.2 Financial risk (continued)

At 30 June 2008					Shareholder	
R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Financial assets and liabilities	Other assets and liabilities
Assets arising from insurance contracts	4 165	–	(113)	4 278	–	–
Equity securities						
At fair value through profit or loss:						
– listed securities	732	551	181	–	–	–
– unlisted securities	1	1	–	–	–	–
Available-for-sale:						
– listed securities	1 321	–	3	–	1 318	–
– unlisted securities	1	–	–	–	1	–
Equity linked notes						
At fair value through profit or loss:						
– unlisted securities	412	262	150	–	–	–
Available-for-sale:						
– unlisted securities	47	–	–	–	47	–
Debt securities						
At fair value through profit or loss:						
– listed securities	56	41	15	–	–	–
Available-for-sale:						
– listed securities	117	–	–	–	117	–
Inflation linked securities						
At fair value through profit or loss:						
– listed securities	22	22	–	–	–	–
Available-for-sale:						
– listed securities	43	–	–	–	43	–
Money market securities						
At fair value through profit or loss:						
– listed securities	346	313	33	–	–	–
Available-for-sale:						
– listed securities	688	–	–	–	688	–
Derivatives						
– hedges	35	–	–	–	35	–
Loans and receivables:						
– insurance receivables	622	–	–	–	622	–
– other	856	7	–	–	849	–
Reinsurance contracts	99	–	–	99	–	–
Cash and cash equivalents	812	43	–	–	769	–
Other assets	663	–	–	–	–	663
Total assets	11 038	1 240	269	4 377	4 489	663
Liabilities arising from insurance contracts	1 061	–	–	1 061	–	–
Liabilities arising from reinsurance contracts	260	–	–	260	–	–
Investment contracts at fair value through profit or loss	1 230	1 230	–	–	–	–
Borrowings at amortised cost	37	–	–	–	37	–
Derivatives						
– hedges	6	–	–	–	6	–
Trade and other payables	1 116	10	–	–	1 106	–
Other liabilities	1 164	–	–	–	–	1 164
Total liabilities	4 874	1 240	–	1 321	1 149	1 164

2.2.1 Unit-linked investment contracts

Unit-linked investment contracts relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. The market risk (including equity, interest rate and currency risk) for these contacts is therefore borne by the policyholder. Discovery holds the assets on which the unit prices are based and as a result, there is no mismatch.

	Investments held at risk of investment policyholders	
R million	**June 2009**	June 2008
Equity securities		
At fair value through profit or loss:		
– listed securities	**1 072**	551
– unlisted securities	**4**	1
Equity linked notes		
At fair value through profit or loss:		
– unlisted securities	**343**	262
Debt securities		
At fair value through profit or loss:		
– listed	**102**	41
Inflation linked securities		
At fair value through profit or loss:		
– listed securities	**5**	22
Money market securities		
At fair value through profit or loss:		
– listed securities	**404**	313
Accounts receivable	**10**	7
Cash and cash equivalents	**224**	43
Total financial assets	**2 164**	1 240
Total financial liabilities	**2 164**	1 240

In respect of IFRS defined investment management contracts there may be an associated deferred acquisition cost intangible asset. There is a risk that in the event of adverse market movements, future expected management fees may reduce and consequently this asset may not be realised and therefore necessitate impairment.

Certain unit trusts in which Discovery owns in excess of 50% of the units are classified as subsidiaries and are consolidated. These consolidated unit trusts are included in unit-linked investment contacts.

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For these contracts the Group is not required to measure this embedded derivative at fair value. This surrender value is equal to or less than the carrying amount of the contract liabilities. The impact on the Group's current-year results if all the contracts with this option were surrendered at the financial year-end would have been a loss of R208 million (2008: R70 million).

A maturity analysis based on the earliest contractual repayment date would present R2 132 million (2008: R1 231 million) of the liabilities as due on the earliest period of the table (between 0 and 1 years) and R32 million (2008: R9 million) of the liabilities would be due between 1 and 5 years.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

Sensitivity analysis

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based.

A decrease of 10% in the value of the assets would reduce the asset management fees by R2 million per annum (2008: R1 million).

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.2.2 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS defined insurance contract with a component that is linked to the units of an underlying portfolio. For this component, Discovery holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. Some market risk is therefore retained on these contracts. The unit linked component is not accounted for separately from the host insurance contract.

	Investments held at risk of insurance policyholders	
R million	**June 2009**	June 2008
Assets arising from insurance contracts	**(219)**	(113)
At fair value through profit or loss financial assets:		
Equity securities		
– listed	**266**	181
– unlisted	**5**	–
Equity linked notes – unlisted	**292**	150
Debt securities – listed	**17**	15
Money market securities – listed	**53**	33
Available-for-sale financial assets:		
Equity securities – listed	**10**	3
Total financial assets	**424**	269

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For these contracts the Group is not required to measure this embedded derivative at fair value. This surrender value is equal to or less than the carrying amount of the contract liabilities. The impact on the Group's current-year results if all the contracts with this option were surrendered at the financial year-end would have been a loss of R362 million (2008: R230 million).

A maturity analysis based on the earliest contractual repayment date would present all the liabilities as due on the earliest period of the table (between 0 and 1 years) because these contacts can be exercised immediately by all policyholders.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

Sensitivity analysis

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based.

A decrease of 10% in the value of the assets would reduce the asset management fees by R2 million per annum (2008: R1 million).

The insurance liability of R219 million (2008: R113 million) is included in the sensitivity analysis presented on page 121 in respect of assets arising from insurance contracts.

2.2.3 Other insurance contracts

For other insurance contracts, Discovery funds the insurance liabilities with a negative reserve and a portfolio of equity, equity linked notes, debt, inflation linked and money market securities.

Liabilities are not determined with reference to specific assets actually held by the company and therefore exposes the shareholders to the market risks associated with the investments held to fund these liabilities. These market risks are disclosed in note 2.2.4 below.

The insurance risks related to these contracts are disclosed in note 2.1.

2.2.4 Shareholder financial assets and liabilities

Other financial assets and liabilities are summarised below:

R million	June 2009	June 2008
At fair value through profit or loss:		
Equity securities – listed	3	–
Debt securities – listed	66	–
Available-for-sale financial assets:		
Equity securities		
– listed securities	1 109	1 318
– unlisted securities	–	1
Equity linked notes – unlisted	58	47
Debt securities – listed	303	117
Inflation linked securities – listed	15	43
Money market securities – listed	501	688
Derivatives	68	35
Loans and receivables	1 836	1 471
Cash and cash equivalents	1 400	769
Total financial assets	5 359	4 489
Borrowings at amortised cost	32	37
Derivatives	12	6
Trade and other payables	1 275	1 106
Total financial liabilities	1 319	1 149

Financial investments

Discovery's shareholders assume the entire market risk related to financial investments specifically held to support Discovery's capital base. The determination of the investment philosophy and strategy for the investment of these assets is the responsibility of the Shareholders' Asset Investment Committee (SAIC). Assets are managed in line with a mandate approved by the SAIC.

Derivative financial instruments

(a) Non-hedge derivatives

Discovery's asset managers use derivative instruments as mandated to limit or reduce risk.

The majority of derivatives are exchange traded (SAFEX or Yield-X). Exchange traded derivatives are settled daily reducing exposures (and hence credit risk) to zero at the end of each day. The market values of these derivatives at 30 June 2009 and 2008 were zero. For derivatives with other parties, credit risk arises only where the instrument has a positive value. Discovery has some swap and forward rate agreements with F1+ rated third parties. The value of exposure towards these parties was calculated by taking into consideration the ISDA agreements in place which allow for netting off between positive and negative exposures. The table below details the exposure in the current year. There was no exposure in the prior year.

	June 2009		
R million	Notional amount	Fair value asset	Fair value liability
Interest rate contracts:			
– fixed for floating swaps	228	4	(3)
– floating for fixed swaps	(226)	–	(8)
	2	4	(11)

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.2.4 Shareholder financial assets and liabilities (continued)

(b) Hedge derivatives

Discovery has purchased cash-settled equity options from a BBB+ rated South African bank to hedge a portion of its exposure to changes in the Discovery share price under its cash-settled share incentive scheme. The details of the phantom share scheme are described in note 32.

As at 30 June 2009, approximately 51.4% (2008: 66.6%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge substantially match that of the phantom share scheme on a per instrument basis. Combinations of call and put options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

The cash-settled call options and cash-settled put options held by the Group at 30 June 2008 were:

Date	Strike Price	Number of call options	Number of put options
30 September 2008	21.50 – 23.42	2 446 250	301 905
30 September 2009	21.50 – 27.72	3 145 512	499 493
30 September 2010	21.50 – 27.72	2 801 132	2 801 132
30 September 2011	22.30 – 27.72	2 004 332	2 004 332
30 September 2012	26.40 – 27.72	516 956	516 956
		10 914 182	6 123 818

No new call or put options were entered into in the year ended 30 June 2009. The options with the settlement date of 30 September 2008 are settled in full. The options with the settlement date after 30 June 2009 are still outstanding.

The fair value of the call and put options are repriced at each reporting date and were calculated on a Black-Scholes model using the same assumptions as tabled in note 32.

(c) Forward exchange contracts ("FECs")

In the table detailed below Discovery has agreed to sell GBP to a third party bank which is BBB+ rated. The fair value of these contracts has been included in financial liabilities. Discovery has entered into these agreements to hedge future administration fee income receivable from PruHealth. Gains and losses on the FECs are included in the income statement to match gains or losses on the obligation to PruHealth, following hedge accounting principles.

Outstanding contracts at 30 June were:

	2009				2008			
Contract	**GBP**	**ZAR**	**Rate**	**Maturity dates**	GBP	ZAR	Rate	Maturity dates
1	**(146 069)**	**2 500 000**	**17.12**	**2009/07/15**	(898 442)	13 000 000	14.47	2008/07/15
2	**(669 912)**	**12 000 000**	**17.91**	**2009/07/15**	(618 561)	9 000 000	14.55	2008/08/15
3	**(145 097)**	**2 500 000**	**17.23**	**2009/08/17**	(615 124)	9 000 000	14.63	2008/09/15
4	**(777 247)**	**14 000 000**	**18.01**	**2009/08/17**	(612 975)	9 000 000	14.68	2008/10/15
5	**(144 251)**	**2 500 000**	**17.33**	**2009/09/15**	(611 691)	9 000 000	14.71	2008/11/17
6	**(773 528)**	**14 000 000**	**18.10**	**2009/09/15**	(608 437)	9 000 000	14.79	2008/12/15
7	**(143 384)**	**2 500 000**	**17.44**	**2009/10/15**	(1 008 675)	15 000 000	14.87	2009/01/15
8	**(769 599)**	**14 000 000**	**18.19**	**2009/10/15**				
9	**(142 407)**	**2 500 000**	**17.56**	**2009/11/16**				
10	**(765 354)**	**14 000 000**	**18.29**	**2009/11/16**				
11	**(141 412)**	**2 500 000**	**17.68**	**2009/12/15**				
12	**(761 975)**	**14 000 000**	**18.37**	**2009/12/15**				
13	**(140 369)**	**2 500 000**	**17.81**	**2010/01/15**				
14	**(758 294)**	**14 000 000**	**18.46**	**2010/01/15**				

In the table below, Discovery has agreed to buy US dollars from a third party bank. The fair value of these contracts has been included in financial liabilities. Discovery has entered into these agreements to hedge the foreign currency risk for expenses expected to be paid in the future. The FECs have been designated as a cash flow hedge of a forecast transaction and firm commitment. Gains and losses on the FECs are included in equity and once the expense is incurred the gain/loss is transferred to the income statement.

Outstanding contracts at 30 June were:

	2009			
Contract	**US$**	**ZAR**	**Rate**	**Maturity dates**
1	**(55 305)**	**462 350**	**7.74**	**2009/09/29**
2	**(65 000)**	**552 305**	**8.50**	**2009/09/30**
3	**(952 800)**	**8 206 848**	**8.61**	**2009/11/30**
4	**(500 000)**	**4 227 250**	**8.45**	**2009/11/30**
5	**(55 305)**	**469 816**	**7.74**	**2009/12/28**
6	**(310 500)**	**2 715 633**	**8.75**	**2010/02/26**
7	**(55 305)**	**477 061**	**7.74**	**2010/03/29**
8	**(55 305)**	**484 610**	**7.74**	**2010/06/29**
9	**(55 305)**	**491 385**	**7.74**	**2010/09/29**
10	**(65 000)**	**591 370**	**9.10**	**2010/09/30**

Borrowings at amortised cost

Borrowings at amortised cost includes a finance lease in respect of land and buildings purchased in July 1998. The effective interest rate on the lease is at 25% per annum. The fair value of the finance lease liability is R33 million at 30 June 2009.

The following table presents a maturity analysis for shareholder financial assets and liabilities based on the remaining contractual maturities.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.2.4 Shareholder financial assets and liabilities (continued)

Contractual cash flows (undiscounted)

R million	Carrying amount	< 1 yr	1 – 5 yrs	5 – 10 yrs	>10 yrs	Open ended
2009						
Assets						
At fair value through profit or loss:						
Equity securities – listed	**3**	**–**	**–**	**–**	**–**	**3**
Debt securities – listed	**66**	**–**	**66**	**–**	**–**	**–**
Available-for-sale financial assets:						
Equity securities – listed	**1 109**	**–**	**–**	**–**	**–**	**1 109**
Equity linked notes – unlisted	**58**	**–**	**–**	**–**	**–**	**58**
Debt securities – listed	**303**	**15**	**200**	**48**	**38**	**2**
Inflation linked securities – listed	**15**	**–**	**15**	**–**	**–**	**–**
Money market securities – listed	**501**	**242**	**149**	**–**	**–**	**110**
Derivatives – hedges	**68**	**43**	**25**	**–**	**–**	**–**
Loans and receivables	**1 836**	**1 558**	**208**	**6**	**–**	**64**
Cash and cash equivalents	**1 400**	**1 400**	**–**	**–**	**–**	**–**
Total	**5 359**	**3 258**	**663**	**54**	**38**	**1 346**
Liabilities						
Borrowings[1]	**41**	**16**	**25**	**–**	**–**	**–**
Derivatives – hedges	**12**	**1**	**11**	**–**	**–**	**–**
Trade and other payables	**1 275**	**1 026**	**152**	**9**	**12**	**76**
Total	**1 328**	**1 043**	**188**	**9**	**12**	**76**
2008						
Assets						
Available-for-sale financial assets:						
Equity securities						
– listed securities	1 318	–	–	–	–	1 318
– unlisted securities	1	–	–	–	–	1
Equity linked notes – listed	47	–	–	–	–	47
Debt securities – listed	117	19	27	36	17	18
Inflation linked securities – listed	43	–	43	–	–	–
Money market securities – listed	688	417	186	–	–	85
Derivatives – hedges	35	4	31	–	–	–
Loans and receivables	1 471	1 314	157	–	–	–
Cash and cash equivalents	769	769	–	–	–	–
Total	4 489	2 523	444	36	17	1 469
Liabilities						
Borrowings[1]	55	14	41	–	–	–
Derivatives – hedges	6	6	–	–	–	–
Trade and other payables	1 106	1 025	81	–	–	–
Total	1 167	1 045	122	–	–	–

(1) These amounts do not agree to the balance sheet as these are the undiscounted contractual payments.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

Sensitivity analysis – interest rate risk

The table below details the specific interest rate risk applicable to shareholder financial assets:

R million	Carrying amount	Fixed	Floating	Non-interest bearing
2009				
At fair value through profit or loss:				
Debt securities	**66**	**48**	**18**	**–**
Available-for-sale financial assets:				
– Debt securities	**303**	**228**	**72**	**3**
– Inflation linked securities	**15**	**15**	**–**	**–**
– Money market securities	**501**	**82**	**419**	**–**
Loans and receivables	**1 836**	**–**	**179**	**1 657**
Cash and cash equivalents	**1 400**	**–**	**1 400**	**–**
Total	**4 121**	**373**	**2 088**	**1 660**
2008				
Available-for-sale financial assets:				
– Debt securities(1)	117	191	(74)	–
– Inflation linked securities	43	35	8	–
– Money market securities	688	103	585	–
Loans and receivables	1 471	–	157	1 314
Cash and cash equivalents	769	–	769	–
Total	3 088	329	1 445	1 314

(1) Negative floating rate debt securities represents short positions in floating rate debt securities where a floating rate of interest has been swapped for a debt security with a fixed rate of interest or another interest rate security.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For shareholder investments an increase in 100 basis points in interest yields would result in a loss of R10 million (2008: loss of R11 million). This loss would be recognised directly in equity.

A decrease in 100 basis points in interest yields would result in a similar equal but opposite amount to the above.

Sensitivity analysis – equity risk

Discovery's shareholder exposure to equity risk is detailed on page 133.

For shareholder investments a 10% decrease in the equity markets would result in a loss of R28 million (2008: loss of R113 million). This loss would be recognised directly in equity.

A decrease in 100 basis points in interest yields would result in a similar equal but opposite amount to the above.

Sensitivity analysis – currency risk

Discovery has offshore assets in its shareholders' portfolios. These offshore investments were made for the purpose of seeking international diversification. There is a risk to future earnings that the value of these assets reduces due to a strengthening in the Rand.

Performance of foreign currency assets is benchmarked against the Euro money market and MSCI World Equity Indices.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.2.4 Shareholder financial assets and liabilities (continued)

The table below segregates the currency exposure by major currency at 30 June:

R million	Rand	USD	GBP	Euro	Japan	Other	Total
2009							
Assets							
At fair value through profit or loss:							
– Equity securities	**3**	**–**	**–**	**–**	**–**	**–**	**3**
– Debt securities	**66**	**–**	**–**	**–**	**–**	**–**	**66**
Available-for-sale financial assets:							
– Equity securities	**1 021**	**51**	**6**	**7**	**2**	**22**	**1 109**
– Equity linked notes	**58**	**–**	**–**	**–**	**–**	**–**	**58**
– Debt securities	**258**	**21**	**3**	**10**	**8**	**3**	**303**
– Inflation linked securities	**15**	**–**	**–**	**–**	**–**	**–**	**15**
– Money market securities	**445**	**1**	**–**	**55**	**–**	**–**	**501**
Derivatives	**68**	**–**	**–**	**–**	**–**	**–**	**68**
Loans and receivables	**1 329**	**10**	**497**	**–**	**–**	**–**	**1 836**
Cash and cash equivalents	**1 082**	**168**	**150**	**–**	**–**	**–**	**1 400**
Total	**4 345**	**251**	**656**	**72**	**10**	**25**	**5 359**
Liabilities							
Borrowings at amortised cost	**32**	**–**	**–**	**–**	**–**	**–**	**32**
Derivatives	**12**	**–**	**–**	**–**	**–**	**–**	**12**
Trade and other payables	**775**	**71**	**429**	**–**	**–**	**–**	**1 275**
Total	**819**	**71**	**429**	**–**	**–**	**–**	**1 319**
2008							
Assets							
Available-for-sale financial assets:							
– Equity securities	1 193	38	36	19	15	18	1 319
– Equity linked notes	23	11	4	6	2	1	47
– Debt securities	87	15	6	3	3	3	117
– Inflation linked securities	43	–	–	–	–	–	43
– Money market securities	518	88	7	69	3	3	688
Derivatives	35	–	–	–	–	–	35
Loans and receivables	969	130	372	–	–	–	1 471
Cash and cash equivalents	366	95	308	–	–	–	769
Total	3 234	377	733	97	23	25	4 489
Liabilities							
Borrowings at amortised cost	37	–	–	–	–	–	37
Derivatives	6	–	–	–	–	–	6
Trade and other payables	672	187	247	–	–	–	1 106
Total	715	187	247	–	–	–	1 149

The exchange rates at year end are detailed in the table below (quoted as Rand per foreign currency):

	USD	GBP	Euro
30 June 2009	**7.73**	**12.71**	**10.85**
30 June 2008	7.82	15.60	12.35

2.2.5 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Key areas where Discovery is exposed to credit risk are:

- Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid. This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The international companies used by Discovery are rated A or higher by A.M. Best.
- Financial assets comprising money market and debt instruments entered to match policyholders' liabilities and invest surplus shareholder funds. Discovery is exposed to the issuer's credit standing on these instruments. Discovery's exposure to credit risk is monitored by the SAIC by setting a minimum credit rating for these investments. Regulations in the various jurisdictions in which Discovery operates have the effect of limiting exposure to individual issuers due to the inadmissibility of assets if specified limits are breached. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- Certain accounts within the balance sheet category of loans and receivables. The management of this risk is discussed in detail on page 140.
- The credit risk on cash and cash equivalents is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided below.
- On some investment products Discovery issues a guaranteed policy to the policyholder and the asset is guaranteed by a third party. There is thus a risk to Discovery in the event of the third party defaulting. Credit risk is reduced by the choice and spread of third party providers.

Credit exposure for debt and money market instruments

The following table provides information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings at 30 June.

R million	AAA	AA+ AA AA–	A+ A A–	BBB	High yield	Govt	Not rated	Total
2009								
At fair value through profit or loss:								
– Debt securities	**42**	**6**	**–**	**–**	**–**	**–**	**18**	**66**
Available-for-sale:								
– Debt securities	**105**	**48**	**33**	**2**	**5**	**105**	**5**	**303**
– Money market	**18**	**153**	**29**	**174**	**3**	**–**	**124**	**501**
– Inflation linked	**–**	**15**	**–**	**–**	**–**	**–**	**–**	**15**
– Equity linked notes	**–**	**58**	**–**	**–**	**–**	**–**	**–**	**58**
Cash and cash equivalents	**111**	**332**	**339**	**616**	**–**	**–**	**2**	**1 400**
Total	**276**	**612**	**401**	**792**	**8**	**105**	**149**	**2 343**
2008								
Available-for-sale:								
– Debt securities	116	46	8	(97)	–	38	6	117
– Money market	202	185	15	274	–	5	7	688
– Inflation linked	15	28	–	–	–	–	–	43
– Equity linked notes	–	47	–	–	–	–	–	47
Cash and cash equivalents	–	–	–	769	–	–	–	769
Total	333	306	23	946	–	43	13	1 664

The credit ratings shown are the most conservative of Moody's, Fitch and S&P and have been provided in a Fitch format.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

2. Management of insurance and financial risk (continued)

2.2.5 Credit risk (continued)

Credit risk relating to loans and receivables

Discovery's loans and receivables including insurance receivables at 30 June comprise:

R million	Ref	2009	2008
Premium debtors	1	**57**	173
Less provision for impairment of premium debtors		**(42)**	(43)
Reinsurance debtors (refer to page 139)		**712**	492
Other loans and receivables			
Discovery Health Medical Scheme	2	**285**	248
Administered scheme debtors	3	**18**	15
Prepayments		**82**	67
Agents and brokers	4	**120**	69
Joint venture loans	5	**30**	31
Prudential Assurance Company	6	**282**	161
Loans to share trust participants		**174**	157
Other debtors		**196**	145
Less provision for impairment of other loans and receivables		**(68)**	(37)
Total		**1 846**	1 478

1. Included in premium debtors is an amount of R4 million (2008: R109 million) due to Destiny from alliance partners. The alliance partners have been rated by A.M. Best as A– or better.
2. The balance of premium debtors are not rated by Discovery as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and corporates. In addition, Discovery suspends benefits when contributions are not received for 3 months. Premium debtors that are past due are handled by a specialist area in business. Where amounts remain uncollected for more than 6 months, the debtors are then handed to specialist debt collection agencies.
3. The Discovery Health Medical Scheme ("DHMS") has been rated AA+ by Global Credit Ratings. The administered schemes have not been rated. Payments by DHMS and the other administration schemes are managed by Discovery and are paid by the 7th of the following month.
4. Agents and brokers are subject to a comprehensive relationship management program including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw-backs are off set against future payments and hence the risk of outstanding commission is minimal.
5. Joint venture loans comprise the receivables from Discovery's joint venture companies that are not eliminated on proportionate consolidation. These joint ventures have not been rated.
6. The Prudential Assurance Company has been rated AA+ by Fitch.

Discovery ages and pursues unpaid accounts on a monthly basis. The ageing of the components of loans and receivables at 30 June was:

R million	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
Not past due	**1 703**	**(9)**	1 442	(9)
30 days	**62**	**(10)**	20	(6)
60 days	**17**	**(17)**	9	(3)
90 days	**15**	**(9)**	7	(4)
120 days	**11**	**(7)**	9	(4)
150 days	**9**	**(4)**	9	(8)
>150 days	**139**	**(54)**	62	(46)
Total	**1 956**	**(110)**	1 558	(80)

2. Management of insurance and financial risk (continued)

Discovery establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The movement in the provision for impairment during the year was as follows:

	R million
Balance at 1 July 2007	(75)
Increase in provision	(12)
Amounts utilised during the period	7
Balance at 30 June 2008	(80)
Balance at 1 July 2008	**(80)**
Increase in provision	**(42)**
Amounts utilised during the period	**12**
Balance at 30 June 2009	**(110)**

2.2.6 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities (i.e. insufficient cash available to meet commitments as and when due).

Discovery invests primarily in liquid financial assets as the following table illustrates. A substantial short term liquidation (although considered highly unlikely) may result in current values not being realised due to demand supply principles. Liquidity is managed on a daily basis and is supervised by the investment committee on a monthly basis and the SAIC on a quarterly basis.

Financial asset liquidity	**2009 %**	**2009 R million**	2008 %	2008 R million
Liquid	**81**	**4 314**	92	4 140
Medium	**1**	**69**	2	64
Illiquid	**18**	**976**	6	285
	100	**5 359**	100	4 489

Liquid assets are considered to be realisable within one month. Listed equities are grouped as liquid assets.
Medium assets are considered to be realisable within 6 months.
Illiquid assets are considered to be realisable in excess of 6 months.

3. Critical accounting estimates and judgments in applying accounting policies

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts)

The insurance policies issued by Discovery Life are valued using various methodologies and assumptions. The methodology is described in the accounting policies on pages 96 to 98. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by PGN 104 of the Actuarial Society of South Africa and the discretionary margins described on page 96 of the accounting policies. The process used to decide on best-estimate assumptions is described below:

Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date.

The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2009.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

3. Critical accounting estimates and judgments in applying accounting policies

Mortality and morbidity

Assumptions of future mortality and morbidity experience are derived based on data from reinsurers and compared to actual past experience. Where appropriate, the assumptions are adjusted to reflect actual past experience or for expected changes in future experience.

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy.

The assumptions are compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable, upon implementation of significant new products.

An allowance is made for the impact of AIDS. This is described in detail under the AIDS assumption below.

Surrender and lapse rates

Surrender and lapse rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than existing actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice. The lapse experience investigation covers at least the last two years of lapse experience to allow trends to be identified.

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment.

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates.

The current and expected future tax position of each policyholders' tax fund is taken into account in setting the tax assumption.

The individual policyholders' fund (IPF) is currently in an excess expense (XE) position and hence no tax is payable on the interest earned on policyholders' funds within the IPF. Consequently, no allowance is made for tax relief on expenses within the IPF. Current forecasts are that the IPF will remain in an XE position. No deferred tax is raised for the XE position.

Deferred tax arises on the other timing differences between the accounting basis and the tax basis.

It is assumed that future tax will be payable at the prevailing company tax rate of 28% (2008: 28%).

Economic assumptions/Investment returns

The discount rate is set equal to the estimate of the risk free investment return rate. The risk free rate is calculated with reference to the risk free yield curve. A single risk free rate is then derived appropriate to the weighted duration of the cash flows and rounded to the nearest quarter of a percent. The risk free rate at 30 June 2009 was set at 9% p.a. (2008: 11% p.a.).

Other investment returns and economic assumptions are set relative to this yield. The assumptions are as follows:

Cash:	Risk free –1.5%
Fixed interest:	Risk free
Equity:	Risk free + 3%
Consumer Price Inflation:	Risk free –4%

The investment fees and tax rates are taken into account in setting the economic assumptions.

Expense assumptions

Renewal expense assumptions are based on the results of the latest expense and budget information.

The allocation of expenses between initial and renewal expenses is based on the latest expense analysis where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionately based on estimates of the functions performed.

Per policy expenses are projected to increase in-line with consumer price inflation.

Non-recurring expenses are excluded from the expense analysis used to derive the assumption.

HIV/AIDS

For individual business a fixed loading is applied to the expected best estimate mortality rates to allow for the expected effect of AIDS. The loading varies based on socio-economic class. A HIV test is required for all individual policies with lump sum life cover. Discovery Life further operates in the high end of the market where the AIDS risk is lower compared to the full market. The additional loading for AIDS is set in consultation with external independent actuaries and reinsurers.

For Group policies a loading is applied at the underwriting stage to allow for the expected effect of AIDS. The loading varies based on the industry and geographic area and composition of the group and is derived from advice received from the reinsurers. The loading then forms the AIDS assumption for Group policies.

Reinsurance

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and incurred but not reported claims liabilities (IBNR), a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependant on the cost at which the reinsurer can hedge the liabilities under this benefit. Assumptions are made around the cost at which the reinsurer can hedge the benefits, based on current and historic costs of the hedging structures.

Automatic premium increases

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts. Contractual premium increases are defined as increases that cannot be cancelled by the policyholder without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

Policy alterations

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

Changes in assumptions

Assumptions and methodologies are reviewed during each valuation. The impact of changes in the assumptions is reflected in the income statement as the changes occur.

Modeling and assumptions changes were made to the valuation at 30 June 2009 to ensure that assumptions are in line with the best estimate of future experience. The total effect of these changes was a decrease in the liabilities on the Financial Soundness Valuation basis of R182.5 million (2008: R489.6 million increase).

In addition to this the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins decreased the liabilities on the Financial Soundness Valuation basis by R422.8 million (2008: R657.5 million decrease). See note 7 for an analysis of these changes.

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out on page 121.

Financial risks are risks arising from exposure to financial instruments at reporting date. Financial instruments include all assets and liabilities, but exclude investments in subsidiary and associated companies, property and equipment, intangible assets, deferred income tax, deferred revenue, provisions and assets and liabilities of insurance operations. The financial risks that Discovery is exposed to are market risk, credit risk and liquidity risk. Each is discussed below.

Insurance risks relate to the likelihood that emerging experience will lead to variances on the value placed on assets/liabilities under insurance contracts. Insurance risks are detailed on pages 111 to 127.

Unlisted investments

Discovery Life has invested in unlisted equity linked notes offered by BNP Paribas and Deutsche Bank AG in order to back unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery Life does however have procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since yesterday's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery Life in order to check if the price provided by the provider is correct.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

4. Property and equipment

R million	Land and buildings[1]	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improvements	Motor vehicles	Total
Year ended 30 June 2008						
Opening carrying amount	21	58	37	107	5	228
Exchange differences	–	–	(1)	–	–	(1)
Additions	–	41	41	50	3	135
Disposals						
– Cost	–	(2)	–	–	(1)	(3)
– Accumulated depreciation	–	1	–	–	1	2
Depreciation charge	(1)	(23)	(30)	(14)	(2)	(70)
Closing carrying amount	20	75	47	143	6	291
At 30 June 2008						
Cost	27	216	408	174	10	835
Accumulated depreciation	(7)	(141)	(361)	(31)	(4)	(544)
Carrying amount	20	75	47	143	6	291
Year ended 30 June 2009						
Opening carrying amount	**20**	**75**	**47**	**143**	**6**	**291**
Exchange differences	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Additions	**–**	**23**	**69**	**32**	**–**	**124**
Disposals						
– Cost	**–**	**(2)**	**–**	**(103)**	**–**	**(105)**
– Accumulated depreciation	**–**	**2**	**–**	**1**	**–**	**3**
Reclassification to investment property	**(20)**	**–**	**–**	**–**	**–**	**(20)**
Depreciation charge	**–**	**(23)**	**(60)**	**(8)**	**(2)**	**(93)**
Closing carrying amount	**–**	**75**	**56**	**64**	**4**	**199**
At 30 June 2009						
Cost	**–**	**237**	**477**	**102**	**10**	**826**
Accumulated depreciation	**–**	**(162)**	**(421)**	**(38)**	**(6)**	**(627)**
Carrying amount	**–**	**75**	**56**	**64**	**4**	**199**

(1) The Group's land and buildings are under a finance lease and are therefore restricted. Refer to note 20 for details regarding the finance lease liability.

5. Investment property

R million	Group 2009
Year ended 30 June	
Reclassification from property and equipment	**20**
Depreciation charge	*****
Closing carrying amount	**20**
At 30 June	
Cost	**27**
Accumulated depreciation	**(7)**
Carrying amount	**20**
Fair value	**85**

* *Amount is less than R500 000.*

The investment property, which is located in Sandton, was independently valued at 30 June 2009 by CB Richards Ellis (Pty) Ltd, who is registered as a professional valuer with the South African Council for the Property Valuer's Profession and the globally recognised Royal Institution of Chartered Surveyors. The property has been valued on the open market value basis using recent market prices.

The investment property is under a finance lease and therefore restricted. Refer to note 20 for details regarding the finance lease liability.

6. Intangible assets including deferred acquisition costs

		Deferred acquisition costs		
R million	Software	Investment management contracts	Insurance contracts(1)	Total
Year ended 30 June 2008				
Opening carrying amount	84	9	20	113
Foreign currency adjustment on translation				
– Cost	(15)	–	11	(4)
– Accumulated amortisation	15	–	(9)	6
Additions	65	94	79	238
Amortisation charge	(40)	–	–	(40)
Deferred acquisition costs amortised	–	(3)	(67)	(70)
Closing carrying amount	109	100	34	243
At 30 June 2008				
Cost	266	100	34	400
Accumulated amortisation	(157)	–	–	(157)
Carrying amount	109	100	34	243

(1) This intangible asset relates to health insurance contracts only.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

6. Intangible assets including deferred acquisition costs (continued)

R million	Software	Deferred acquisition costs: Investment management contracts	Deferred acquisition costs: Insurance contracts[1]	Total
Year ended 30 June 2009				
Opening carrying amount	**109**	**100**	**34**	**243**
Foreign currency adjustment on translation				
– Cost	**(1)**	**–**	**(35)**	**(36)**
– Accumulated amortisation	**–**	**–**	**29**	**29**
Additions	**134**	**227**	**72**	**433**
Amortisation charge	**(59)**	**–**	**–**	**(59)**
Deferred acquisition costs amortised	**–**	**(18)**	**(72)**	**(90)**
Closing carrying amount	**183**	**309**	**28**	**520**
At 30 June 2009				
Cost	**399**	**309**	**28**	**736**
Accumulated amortisation	**(216)**	**–**	**–**	**(216)**
Carrying amount	**183**	**309**	**28**	**520**

(1) This intangible asset relates to health insurance contracts only.

7. Assets arising from insurance contracts

R million	**Group 2009**	Group 2008
Long-term insurance contracts – gross	**5 449**	4 165
Less: recovery from reinsurers	**(362)**	(245)
Long-term insurance contracts – net	**5 087**	3 920
Current	**1 005**	876
Non-current	**4 725**	3 414
Variable	**(643)**	(370)
	5 087	3 920
Movement in assets arising from insurance contracts		
Balance at the beginning of the year	**3 920**	3 114
Movement for the year:		
Expected movement in policyholder liabilities	**(1 032)**	(759)
Unwinding of discount rate	**434**	264
New business written	**926**	809
Experience variances	**305**	220
Economic	**145**	6
Operational	**160**	214
Modelling and method changes	**34**	105
Benefit enhancements	**(105)**	–
Changes in assumptions	**182**	(490)
Economic	**446**	(338)
Operational	**(264)**	(152)
Margin reset[1]	**423**	657
Balance at the end of the year	**5 087**	3 920

(1) In line with accounting policy 13.1, the best estimate and margins are reset at every valuation date to reflect the underlying profitability of the overall portfolio. As margins are not set on new business in isolation, an acquisition cost loss arises which is funded by the margin reset on the total portfolio.

8. Investment in associate

R million	**Group 2009**	Group 2008
Sedibeng (Proprietary) Limited (incorporated in South Africa)	**–**	1
Sedibeng (Proprietary) Limited		
Sedibeng (Proprietary) Limited ("Sedibeng") provides financial services to local clients. Discovery Health (Pty) Limited holds 10% (2008: 10%) of the issued share capital and has representation on the board of directors of Sedibeng.		
The loss attributable to ordinary shareholders for the year ended 30 June 2009 amounted to R2 million (2008: R2 million)		
Summarised financial information of associated company at 30 June:		
Balance sheet		
Non-current assets	*****	*
Current assets	*****	*
Non-current liabilities	**(2)**	(2)
Current liabilities	*****	*
Equity	**(2)**	(2)
Income statement		
Revenue	*****	*
Net loss for the 12 months ended 30 June	*****	*
Accumulated deficit at 30 June	**(2)**	(2)

** Amount is less than R500 000.*

9. Investment in joint ventures

Prudential Health Holdings Limited

Prudential Health Holdings Limited ("PruHealth") provides consumer-engaged private medical insurance to clients in the United Kingdom. Discovery holds 50% (2008: 50%) of the issued share capital of PruHealth. Discovery accounts for interests in jointly controlled entities by proportionate consolidation.

PruProtect

PruProtect provides consumer-engaged life insurance to clients in the United Kingdom on Prudential Assurance Company's licence. PruHealth, in which Discovery holds 50% (2008: 50%) of the issued share capital, is entitled to 100% of the profits and losses, assets and liabilities of the venture. Discovery accounts for interests in jointly controlled entities by proportionate consolidation.

Summarised financial information of Discovery's share of the joint venture companies at 30 June:

	PruHealth		PruProtect	
R million	**2009**	2008	**2009**	2008
Balance sheet				
Non-current assets	**1**	2	**–**	–
Current assets	**620**	710	**307**	207
Current liabilities	**(230)**	(267)	**(499)**	(312)
Equity	**391**	445	**(192)**	(105)
Income statement				
Revenue	**683**	520	**30**	7
Expenses	**(765)**	(680)	**(200)**	(145)
Net loss for the 12 months ended 30 June	**(91)**	(140)	**(117)**	(99)
Accumulated deficit at 30 June	**(584)**	(492)	**(216)**	(99)

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

10. Investments

The Group's investments are summarised by measurement category in the table below:

R million	Group 2009	Group 2008
Available-for-sale	**1 996**	2 217
Equity securities	**1 119**	1 322
Equity linked notes[1]	**58**	47
Debt securities	**303**	117
Inflation linked securities	**15**	43
Money market	**501**	688
Fair value through profit or loss	**2 632**	1 569
Equity securities	**1 350**	733
Equity linked notes(1)	**635**	412
Debt securities	**185**	56
Inflation linked securities	**5**	22
Money market	**457**	346
Total investments	**4 628**	3 786
Current portion	**510**	884
Non-current portion	**956**	388
Variable(2)	**3 162**	2 514
	4 628	3 786
Listed	**3 364**	3 300
Unlisted	**1 264**	486
	4 628	3 786

(1) The equity linked notes are unlisted rand denominated investments providing equity exposure together with either a floor of 80% of the highest price observed since inception or a return after five years based on the best of three different unit trusts or indices.

(2) There is no maturity profile for equity securities and equity linked notes as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

11. Derivative financial instruments

R million	Group 2009 Assets	Group 2009 Liabilities	Group 2008 Assets	Group 2008 Liabilities
Phantom share scheme – cash flow hedge	**10**	**–**	19	–
Phantom share scheme – fair value hedge	**22**	**–**	16	–
Forward exchange contracts – fair value hedge	**32**	**1**	–	6
Non-hedge derivatives	**4**	**11**	–	–
	68	**12**	35	6
Current portion	**43**	**1**	4	6
Non-current portion	**25**	**11**	31	–
	68	**12**	35	6

Please refer to pages 133 to 135 for a detailed description of the derivative financial instruments listed above.

12. Loans and receivables including insurance receivables

R million	Group 2009	Group 2008
Receivables arising from insurance and reinsurance contracts:		
– premiums debtors	**57**	173
– less provision for impairment of premiums debtors	**(42)**	(43)
– reinsurance debtors	**712**	492
Other loans and receivables:		
– Discovery Health Medical Scheme	**285**	248
– closed scheme debtors	**18**	15
– joint venture loans	**30**	31
– loans to share trust participants	**174**	157
– prepayments	**82**	67
– Prudential Assurance Company	**282**	161
– other debtors	**316**	214
– less provision for impairment of other loans and receivables	**(68)**	(37)
Total loans and receivables	**1 846***	1 478*
Current portion	**1 823**	1 047
Non-current portion	**23**	431
	1 846	1 478

** The directors believe that the fair value approximates the carrying value of the loans and receivables.*

13. Reinsurance contracts

R million	Group 2009	Group 2008
Reinsurers' share of insurance contract liabilities	**142**	99
Current	**142**	99

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in Loans and receivables (Note 12).

14. Cash and cash equivalents

R million	Group 2009	Group 2008
Cash at bank and in hand	**959**	303
Short-term deposits	**778**	509
	1 737	812

The effective interest rate on short-term deposits was 9.79% (2008: 10.26%) and the average maturity 18 days (2008: 11 days).

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

15. Share capital and share premium

15.1 Ordinary share capital and share premium

	Number of shares	Ordinary shares R million	Share premium R million	Treasury shares R million	Total R million
At 1 July 2007	538 707 832	1	1 392	–	1 393
Employee share option scheme:					
– Proceeds from shares issues	7 315 235	*	75	–	75
At 30 June 2008	546 023 067	1	1 467	–	1 468
Employee share option scheme:					
– Proceeds from shares issues	**8 301 165**	*****	**103**	**–**	**103**
Treasury shares purchases	**(680 268)**	**–**	**–**	**(23)**	**(23)**
At 30 June 2009	**553 643 964**	**1**	**1 570**	**(23)**	**1 548**

** Amount is less than R500 000.*

The total authorised number of ordinary shares is 1 billion (2008: 1 billion), with a par value of 0.1 cents per share.

15.2 Discovery Holdings share incentive trusts and BEE transaction

	2009 Shares	2008 Shares
Number of ordinary shares allocated at the beginning of the year	**45 930 113**	53 245 348
Number of ordinary shares purchased by BEE participants	**358 553**	320 251
Number of ordinary shares delivered to participants during the year	**(8 659 718)**	(7 635 486)
Number of ordinary shares allocated at the end of the year	**37 628 948**	45 930 113

For more details regarding the trusts refer to note 32.

16. Other reserves

R million	Group 2009	Group 2008
Reserve for revaluation of available-for-sale investments	**112**	299
Currency translation reserve	**96**	151
Share-based payment reserve	**307**	289
Hedging reserve	**25**	(18)
Total other reserves at 30 June	**540**	721
Movements in other reserves were as follows:		
Reserve for revaluation of available-for-sale investments		
Balance at the beginning of the year	**299**	542
Unrealised losses on investments	**(253)**	(25)
Capital gains tax on unrealised losses on investments	**39**	4
Realised gains on investments transferred to income statement	**(65)**	(252)
Capital gains tax on realised gains on investments	**9**	30
Impairment of investments transferred to income statement	**96**	–
Capital gains tax on impairment of investments	**(13)**	–
Balance at the end of the year	**112**	299
Currency translation reserve		
Balance at the beginning of the year	**151**	115
Currency translation differences	**(55)**	36
Balance at the end of the year	**96**	151
Share-based payment reserve		
Balance at the beginning of the year	**289**	257
Share-based payments	**18**	32
Balance at the end of the year	**307**	289
Hedging reserve		
Balance at the beginning of the year	**(18)**	(2)
Transfer from/(to) hedging reserve	**43**	(16)
Balance at the end of the year	**25**	(18)

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

17. Liabilities arising from insurance contracts

R million	Group 2009	Group 2008
Gross		
Short-term liabilities:		
– claims reported and loss adjustment expenses	**1 012**	636
– claims incurred but not reported	**274**	313
– unearned premiums	**27**	63
Long-term liabilities:		
– with fixed and guaranteed terms	**465**	49
Total liabilities arising from insurance contracts, gross	**1 778**	1 061
Recoverable from reinsurers		
Short-term liabilities:		
– claims incurred but not reported	**(142)**	(77)
Long-term liabilities:		
– with fixed and guaranteed terms	**–**	(22)
Total reinsurers' share of liabilities arising from insurance contracts (Note 13)	**(142)**	(99)
Net		
Short-term liabilities:		
– claims reported and loss adjustment expenses	**1 012**	636
– claims incurred but not reported	**132**	236
– unearned premiums	**27**	63
Long-term liabilities:		
– with fixed and guaranteed terms	**465**	27
Total liabilities arising from insurance contracts, net	**1 636**	962
Current portion	**993**	956
Non-current portion	**643**	6
	1 636	962

Movements in the liabilities are as follows:

R million	2009 Gross	2009 Reinsurance	2009 Net	2008 Gross	2008 Reinsurance	2008 Net
Claims reported and loss adjustment expenses						
Notified claims	**636**	**–**	**636**	423	–	423
Incurred but not reported	**313**	**(77)**	**236**	307	(51)	256
Balance at the beginning of the year	**949**	**(77)**	**872**	730	(51)	679
Cash paid for claims settled in the year	**(326)**	**77**	**(249)**	(321)	51	(270)
Increase/(decrease) in liabilities						
– arising from current year claims	**844**	**(149)**	**695**	586	(77)	509
– arising from prior year claims	**(178)**	**–**	**(178)**	(62)	–	(62)
Net exchange differences	**4**	**–**	**4**	16	–	16
Total at the end of the year	**1 293**	**(149)**	**1 144**	949	(77)	872
Notified claims	**1 012**	**–**	**1 012**	636	–	636
Incurred but not reported	**274**	**(142)**	**132**	313	(77)	236
Total at the end of the year	**1 286**	**(142)**	**1 144**	949	(77)	872
Provisions for unearned premiums						
At the beginning of the year	**63**	**–**	**63**	12	–	12
Increase/(release) in the period	**(36)**	**–**	**(36)**	51	–	51
Total at the end of the year	**27**	**–**	**27**	63	–	63

R million	Group 2009	Group 2008
Long-term insurance contracts		
With fixed and guarantee terms		
Opening balance	**27**	–
Expected movement in policyholder liabilities	**(1)**	19
Unwinding of discount rate	**1**	–
New business written	**457**	8
Change in assumptions	**1**	–
Basis change*	**(20)**	–
Balance at the end of the year	**465**	27

* *The calculation of the UK liability changed from a financing reinsurance basis to a risk premium basis. This generated a net asset under insurance contracts.*

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

18. Liabilities arising from reinsurance contracts

R million	Group 2009	Group 2008
Lapse risk treaties	**742**	15
Reinsurance recoveries relating to assets arising from insurance contracts (refer note 7)	**362**	245
	1 104	260
Balance at the beginning of the year	**260**	280
Increase in liability	**859**	(13)
– Accrual	**944**	(13)
– Premiums paid included in reinsurance premiums	**(85)**	–
Premiums paid in the year	**(9)**	(7)
Exchange differences	**(6)**	–
Balance at the end of the year	**1 104**	260
Current	**155**	(5)
Non-current	**949**	265
	1 104	260

19. Investment contracts at fair value through profit or loss

R million	Group 2009	Group 2008
The movements during the year were as follows:		
Balance at the beginning of the year	**1 230**	735
Premiums received	**1 760**	589
Fees deducted from account balances	**(5)**	(16)
Account balances paid on withdrawal and other terminations in the year	**(859)**	(92)
Fair value adjustment	**35**	14
Balance at the end of the year	**2 161**	1 230
Variable[(1)]	**2 161**	1 230

(1) There is no maturity profile for these liabilities as this will depend on policyholder behaviour. Contractually policyholders may disinvest on demand.

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and money market instruments. The Group communicates the actual performance of these contracts to its contract holders.

20. Borrowings at amortised cost

R million	Group 2009	Group 2008
Finance lease liability	**32**	37
	32	37
Current	**9**	5
Non-current	**23**	32
	32	37

Finance lease liability

The finance lease is in respect of land and buildings purchased in July 1998. The effective interest rate on the lease is at 25% per annum. The fair value of the finance lease liability is R33 million at 30 June 2009.

R million	Group 2009	Group 2008
The minimum lease payments are as follows:		
Not later than 1 year	**16**	14
Later than 1 year and not later than 5 years	**25**	41
	41	55
Future finance charges on finance lease	**(9)**	(18)
Finance lease liability	**32**	37

21. Deferred income tax

R million	Group 2009	Group 2008
Deferred tax asset	**239**	128
– Current	**24**	20
– Non-current	**215**	108
Deferred tax liability	**(1 402)**	(1 031)
– Current	**(153)**	(172)
– Non-current	**(1 249)**	(859)
	(1 163)	(903)
Movement summary:		
Balance at beginning of year	**(903)**	(726)
Income statement charge	**(294)**	(215)
Deferred tax on cashflow hedge charged to equity	**(1)**	4
Capital gains taxation on market value adjustments and realised gains:		
– charged to equity	**35**	34
Balance at the end of the year	**(1 163)**	(903)

Notes to the annual financial statements (continued)
for the year ended 30 June 2009

21. Deferred income tax (continued)

R million	Opening balance	Change in tax rate	Charge for the year	Closing balance
Year ended 30 June 2009				
Deferred tax asset	**128**	**–**	**111**	**239**
Provisions	**15**	**–**	**1**	**16**
Capital gains tax on impairment of available-for-sale financial instruments	**–**	**–**	**13**	**13**
Other deductible temporary differences				
– Operating leases	**19**	**–**	**(4)**	**15**
– Finance lease	**5**	**–**	**(2)**	**3**
– Cash flow hedge	**4**	**–**	**(4)**	**–**
– Fair value hedge	**5**	**–**	**(5)**	**–**
– Share-based payments	**14**	**–**	**5**	**19**
– Deferred revenue	**3**	**–**	**16**	**19**
– Unrealised forex loss	**–**	**–**	**1**	**1**
– Other	**2**	**–**	**4**	**6**
Assessed loss in company policyholders fund	**3**	**–**	**9**	**12**
Assessed loss in subsidiaries	**11**	**–**	**24**	**35**
Unutilised special transfer balances	**47**	**–**	**53**	**100**
Deferred tax liability	**(1 031)**	**–**	**(371)**	**(1 402)**
Difference between accounting and tax balances arising from insurance contracts	**(898)**	**–**	**(335)**	**(1 233)**
Capital gains tax on unrealised gains on available-for-sale financial instruments	**(69)**	**–**	**26**	**(43)**
Capital gains tax on financial instruments at fair value through profit or loss	**(12)**	**–**	**12**	**–**
Difference between wear and tear and depreciation	**(25)**	**–**	**(3)**	**(28)**
Other deductible temporary differences				
– Deferred acquisition costs	**(18)**	**–**	**(65)**	**(83)**
– Prepayments	**(5)**	**–**	**(10)**	**(15)**
– Other	**(4)**	**–**	**4**	**–**
	(903)	**–**	**(260)**	**(1 163)**
Year ended 30 June 2008				
Deferred tax asset	80	(2)	50	128
Provisions	14	–	1	15
Other deductible temporary differences				
– Operating leases	20	(1)	–	19
– Finance lease	6	–	(1)	5
– Cash flow hedge	–	–	4	4
– Fair value hedge	–	–	5	5
– Deferred revenue	–	–	3	3
– Other	–	–	2	2
Share-based payments	15	–	(1)	14
Assessed loss in company policyholders fund	2	–	1	3
Assessed loss in subsidiaries	–	–	11	11
Unutilised special transfer balances	23	(1)	25	47
Deferred tax liability	(806)	28	(253)	(1 031)
Difference between accounting and tax balances arising from insurance contracts	(656)	22	(264)	(898)
Capital gains tax on available-for-sale financial instruments	(103)	4	30	(69)
Capital gains tax on financial instruments at fair value through profit or loss	(18)	1	5	(12)
Difference between wear and tear and depreciation	(16)	1	(10)	(25)
Other deductible temporary differences				
– Deferred acquisition costs	–	–	(18)	(18)
– Prepayments	(8)	–	3	(5)
– Other	(5)	–	1	(4)
	(726)	26	(203)	(903)

All South African entities are in a tax paying position. Destiny operations have significant losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

Taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers. Discovery Life currently has an assessed loss in the individual policyholders' fund of R6.9 billion (2008: R5.6 billion) for which no deferred tax asset has been created.

Discovery accounted for no tax relief for the PruHealth losses for the year ended 30 June 2009. For the six-month period ending 31 December 2007, Discovery obtained tax relief for 100% of the PruHealth losses as this tax asset was ceded to Prudential Assurance Company in the UK.

22. Deferred revenue

R million	**Group 2009**	Group 2008
At 1 July	**70**	65
Realised through the income statement	**(63)**	(56)
Deferred income relating to new business	**79**	61
At 30 June	**86**	70
Current	**55**	46
Non-current	**31**	24
	86	70

Deferred revenue relates to gym activation fees received from Vitality members on activation of their gym contracts which are deferred over the period of the contract.

23. Provisions

Leave pay		
Opening balance	**54**	48
Additional provisions raised	**23**	8
Used during the year	**(13)**	(1)
Net exchange differences	**1**	(1)
Closing balance	**65**	54

24. Trade and other payables

Payables and accrued liabilities	**653**	636
Payroll creditors	**176**	103
Due to reinsurers	**120**	22
Straight-lining operating lease payments	**68**	74
Policyholder unallocated funds	**27**	32
Value-added tax	**27**	27
Personal medical funds	**17**	72
Other creditors	**190**	150
	1 278	1 116
Current	**1 029**	961
Non-current	**249**	155
	1 278	1 116

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

25. Net insurance premiums

R million	Group 2009	Group 2008
Health	**828**	1 029
Recurring premiums	**968**	1 210
Reinsurance premiums	**(140)**	(181)
Individual life	**3 259**	2 284
Recurring premiums	**3 563**	2 730
Single premiums	**217**	–
Reinsurance premiums	**(521)**	(446)
Group life	**229**	200
Recurring premiums	**438**	353
Reinsurance premiums	**(209)**	(153)
	4 316	3 513
Gross income of Group	**5 186**	4 293
Outward reinsurance premiums	**(870)**	(780)
	4 316	3 513

26. Investment income

R million	Group 2009	Group 2008
Available-for-sale	**109**	89
– interest	**72**	60
– dividends	**43**	36
– investment charges	**(6)**	(7)
At amortised cost interest income	**23**	16
Cash and cash equivalents interest income	**104**	105
	236	210

27. Net realised gains on available-for-sale financial assets

R million	Group 2009	Group 2008
Realised gains	**115**	281
– equity securities	**91**	263
– debt securities	**8**	6
– inflation linked	**3**	–
– foreign assets	**13**	12
Realised losses	**(50)**	(29)
– equity securities	**(44)**	(20)
– debt securities	**(5)**	(9)
– money market	**(1)**	–
	65	252

28. Net fair value gains on financial assets at fair value through profit or loss

R million	Group 2009	Group 2008
Investment income	65	28
– interest	54	22
– dividends	24	11
– investment charges	(13)	(5)
Net realised gains	55	96
Net fair value losses	(129)	(99)
	(9)	25

29. Net claims and policyholders' benefits

R million	Group 2009	Group 2008
Health insurance claims	834	813
Gross claims	901	931
Less: Reinsurance recoveries	(67)	(118)
Individual life insurance claims	769	602
Death	589	557
Disability	644	427
Less: Reinsurance recoveries	(464)	(382)
Group life insurance claims	140	106
Death	147	139
Disability	169	68
Less: Reinsurance recoveries	(176)	(101)
Individual investment benefits	133	34
Surrenders	132	31
Retirement	1	3
	1 876	1 555
Policyholder benefits	2 583	2 156
Recoveries from reinsurers	(707)	(601)
Net policyholder benefits	1 876	1 555

30. Acquisition costs

R million	Group 2009	Group 2008
Commission expenses	1 473	1 196
Movement in deferred acquisition costs	(209)	(85)
Movement in deferred revenue liability	49	21
	1 313	1 132

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

31. Marketing and administration expenses

R million	Group 2009	Group 2008
Marketing and administration expenses comprises:		
Employee costs	**2 003**	1 692
Marketing and distribution costs	**376**	360
IT systems and consumables	**172**	175
Building related and office costs	**345**	307
Depreciation and amortisation	**152**	112
Vitality benefit costs	**959**	643
Other costs	**322**	495
	4 329	3 784
Marketing and administration expenses include the following:		
Amortisation of intangible assets (note 6)		
Software	**59**	40
Auditors' remuneration		
Audit fees		
– current year	**12**	11
Fees for other services	**3**	2
	15	13
Depreciation on property and equipment (note 5)		
Buildings	*****	1
Furniture, fittings and equipment	**23**	23
Computer equipment and operating systems	**60**	30
Leasehold improvements	**8**	14
Motor vehicles	**2**	2
	93	70
** Amount is less than R500 000.*		
Employee costs		
Salaries, wages and allowances	**1 614**	1 402
Medical aid fund contributions	**81**	69
Defined contribution provident fund contributions	**76**	64
Social security levies	**17**	18
Share-based payment expenses		
– equity	**9**	10
– liability	**55**	12
Staff training	**12**	10
Recruitment fees	**26**	16
Temporary staff	**49**	47
Provision for leave pay	**11**	6
Other	**53**	38
	2 003	1 692

Executive directors' remuneration is included in employee costs. Refer to Directorate.

R million	Group 2009	Group 2008
Operating lease charges		
Land and buildings		
– owner occupied property	**126**	109
Computer and office equipment	**67**	83
	193	192
Professional fees		
Actuarial fees	**2**	3
Technical and other	**120**	122
	122	125
Repairs and maintenance expenditure		
Computer repairs and maintenance	**11**	6
Furniture and equipment maintenance	**1**	1
Office repairs and maintenance	**23**	4
Software maintenance	**45**	45
	80	56
Other operating costs		
Impairment of receivables	**22**	4
Foreign exchange losses on supplier balances	**–**	3

32. Share-based payment expenses

32.1 Staff incentive schemes

Discovery Holdings operates five share-based payment arrangements with employees. The details of these arrangements are described below:

1. **The Discovery Holdings Limited share trust**

   The Discovery Holdings incentive scheme is a "deferred implementation" incentive scheme. Options are exercised at the market share price ruling on the date the options are allocated and must be exercised on that date. Shares offered to participants are issued to the trust on the same date.

   For options allocated prior to 2004, of the shares offered at option date, delivery may only be taken by the participant 2, 3, 4 and 5 years after the option is exercised at a rate of 25% per annum. Any shares not taken delivery of by the end of the 5th year from the date the option is exercised, must be delivered to the participant.

   For options allocated in 2004, of the shares offered at option date, delivery may only be taken by the participant 2, 3 and 4 years after the option is exercised at a rate of 33.3% per annum. Any shares not taken delivery of by the end of the 4th year from the date the option is exercised, must be delivered to the participant.

   No payment is required from the participant until delivery of the shares is taken. Payment for the shares must be made before delivery of the shares can be taken. The trust has not offered loans to participants. All staff are eligible to participate in the share incentive scheme.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

32. Share-based payment expenses (continued)

32.1 Staff incentive schemes (continued)

2. BEE staff trust

5 290 000 Discovery Holdings' shares were issued to the BEE staff trust for current and future employees. The trust consists of two components; the allocation scheme and the option scheme as described below:

Allocation scheme

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees 2, 3, 4 and 5 years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares and cash, if any, to which the employee may be entitled.

Option scheme

Options granted to black employees may be exercised 2, 3, 4 and 5 years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the 5th year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

3. The Destiny Health Inc. stock option plan

Options are granted at the fair value price at date of grant, currently US$3.42. Options vest 25% per year for 4 years and must be exercised within 6 years of the date that 100% vest otherwise the options expire.

4. The Vitality Group Inc. stock option plan

Options are granted at fair value price at date of grant, currently US$0.375. Options vest 33.3% per year for 3 years and must be exercised within 4 years of the date that 100% vest otherwise the options expire.

The share option schemes mentioned in 1, 2, 3 and 4 above have been classified as equity-settled schemes and therefore, a share-based payment reserve has been recognised.

5. The phantom scheme

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery share price. The bonus is earned if the participant is employed on each vesting date. The vesting of the scheme is 2, 3, 4 and 5 years after allocation of the bonus units. The bonus may not be carried forward.

In the calculation of the bonus, the participants may choose to replicate the economics of a Discovery share or a call option over a Discovery share or a combination of both for the 2005, 2006 and 2007 allocations and only that of a Discovery share for the 2008 allocation. This scheme has been classified as a cash-settled scheme.

The following is a summary of the terms and conditions of the share options granted:

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled during year	Shares under option at end of year
1. The Discovery Holdings Limited share trust							
30/09/2004	R14.40	30/09/2008	7 794 175	–	(7 752 507)	(41 668)	–
2. BEE staff trust							
13/09/2005	R21.47	13/09/2010	961 500	–	(109 500)	–	852 000
13/09/2005	R0.00	13/09/2010	1 466 622	–	(577 887)	(89 000)	799 735
30/09/2006	R22.30	30/09/2011	405 000	–	(33 750)	–	371 250
30/09/2006	R0.00	30/09/2011	135 000	–	–	(33 750)	101 250
15/07/2007	R30.00	30/06/2012	217 500	–	–	–	217 500
15/07/2007	R0.00	30/06/2012	42 500	–	–	–	42 500
3. The phantom scheme							
30/09/2005	R21.50	30/09/2010	4 097 329	–	(1 361 404)	(155 595)	2 580 330
30/09/2005	R0.00	30/09/2010	389 170	–	(128 348)	(21 701)	239 121
30/09/2006	R22.30	30/09/2011	6 125 113	–	(1 510 653)	(87 656)	4 526 804
30/09/2006	R0.00	30/09/2011	1 074 875	125 000	(299 969)	(43 313)	856 593
30/09/2007	R26.40	30/09/2012	3 356 100	–	–	(180 675)	3 175 425
30/09/2007	R0.00	30/09/2012	1 349 500	–	–	(95 250)	1 254 250
30/09/2008	R0.00	30/09/2013	–	3 966 925	–	(123 275)	3 843 650
4. The Destiny Health Inc. stock option plan							
01/08/2001	$2.00	31/07/2005	6 250	–	–	(6 250)	–
01/10/2001	$2.00	30/09/2005	375	–	–	(375)	–
01/08/2002	$2.00	31/07/2006	2 000	–	–	(2 000)	–
15/10/2002	$2.00	14/10/2006	1 000	–	–	(1 000)	–
01/03/2003	$2.00	28/02/2007	10 750	–	–	(10 750)	–
13/03/2003	$2.00	12/03/2007	1 000	–	–	(1 000)	–
07/07/2003	$2.11	06/07/2007	75 272	–	–	(75 272)	–
16/09/2003	$2.11	15/09/2007	107 750	–	–	(107 750)	–
01/12/2003	$2.11	30/11/2007	18 750	–	–	(18 750)	–
02/08/2004	$3.38	01/08/2008	80 000	–	–	(80 000)	–
22/06/2005	$3.38	21/06/2009	178 000	–	–	(172 000)	6 000
17/01/2006	$3.33	16/01/2010	282 500	–	–	(282 500)	–
05/07/2006	$3.27	04/07/2010	25 000	–	–	(25 000)	–
14/08/2006	$3.27	13/08/2010	250 000	–	–	(250 000)	–
12/09/2006	$3.27	11/09/2010	5 000	–	–	(5 000)	–
14/11/2006	$3.27	13/11/2010	50 000	–	–	(50 000)	–
15/03/2007	$3.42	14/03/2011	150 000	–	–	(150 000)	–
15/06/2007	$3.42	14/06/2011	340 000	–	–	(340 000)	–
14/08/2007	$3.42	13/08/2011	20 000	–	–	(20 000)	–
21/08/2007	$3.42	20/08/2011	150 000	–	–	(150 000)	–
5. The Vitality Group Inc. stock option plan							
01/10/2008	$0.38	30/06/2010	–	6 060 000	–	(500 000)	5 560 000

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

32. Share-based payment expenses (continued)

32.1 Staff incentive schemes (continued)

The fair value of the shares granted during the period was calculated based on the market price of a Discovery share at the date of grant.

The fair value of options granted was calculated on a Black-Scholes model using the following assumptions:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
Discovery Holdings Share Trust					
– issued on 30 September 2004	R14.40	R14.40	2 to 4 years	27.3%	–
BEE Staff Trust					
– issued on 13 September 2005	R21.47	R21.47	2 to 5 years	27.3%	–
– issued on 30 September 2006	R22.30	R22.30	2 to 5 years	27.3%	1.48
– issued on 15 July 2007	R30.00	R30.00	2 to 5 years	27.3%	1.48
Phantom scheme					
– issued on 30 September 2005	R25.84	R21.50	0.25 to 1.25 years	33.0%	1.88
– issued on 30 September 2006	R25.84	R22.30	0.25 to 2.25 years	33.0%	1.88
– issued on 30 September 2007	R25.84	R26.40	1.25 to 3.25 years	33.0%	1.88
Destiny Health stock option plan	US$3.42	US$3.42	6.25 years	14.1%	–
Vitality Group Inc. stock option plan	US$0.375	US$0.375	6.25 years	14.1%	–

The phantom scheme is cash-settled and is thus repriced at each reporting date.

32.2 Black Economic Empowerment (BEE) transaction and IFRS2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares	Subscription price per share
Dlamini SPV	200 000	0.001
Zilwa SPV	200 000	0.001
WDBIH SPV	17 703 273	0.113
Maphai SPV	1 106 455	1.718
Discovery Foundation	14 226 181	0.001
BEE staff share trust	5 290 000	0.001

200 000 shares of R0.001 each were issued to the Dlamini SPV in September 2005 as part of the BEE transaction. 171 096 shares were reacquired from the Dlamini SPV for R0.001 each on 15 April 2009.

Mechanics of the transaction with BEE partners other than BEE staff share trust ("BEE parties")

The difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represents an outstanding funded amount provided by Discovery shareholders ("the funded amount"). The BEE parties will provide Discovery and its subsidiaries with a right to purchase, at the end of 10 years, such number of ordinary shares at 0.1 cent per share ("the par value") as will provide Discovery with a notional return on this funded amount ("the Discovery repurchase agreement").

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them, the BEE parties will have a right to simultaneously acquire from Discovery, at the then 30-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties rank pari passu with existing Discovery shares. The BEE parties have undertaken to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distribution.

For purposes of IFRS 2, the transaction has been accounted for based on the fair value of a share option with a similar economic effect. In respect of the WDBIH SPV, the Maphai SPV and the Foundation SPV, the transaction was expensed in full in the 2006 financial year. This fair value has been determined using a Black-Scholes model with the following assumptions:

	WDBIH SPV	Maphai SPV	Foundation SPV
Spot price	R21.47	R21.47	R21.47
Exercise price	R81.82	R60.55	R64.21
Option term	10 years	10 years	10 years
Volatility	27.3%	27.3%	27.3%
Dividend yield	0%	0%	0%

For details of staff scheme, refer to note 32.1 above. The Zilwa SPV is valued in line with the BEE staff trust.

33. Impairment of financial instruments held as available-for-sale

R million	**Group 2009**	Group 2008
Equity securities	**96**	–

34. Finance costs

Interest expense:		
On bank loan	**6**	12
On finance lease liability	**9**	10
On accounts payable balances	**1**	3
Early settlement discount*	**–**	27
	16	52

** R27 million has been included in finance charges relating to a settlement discount on early payment by Prudential for UK tax losses ceded to them.*

35. Foreign exchange (loss)/profit

Foreign exchange (loss)/profit	**(23)**	4

The foreign exchange (loss)/profit arises on the translation of the rand based prepayment made by PruHealth to Discovery Health in respect of administration fees and the settlement of foreign group company loan accounts.

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

36. Taxation

R million	Group 2009	Group 2008
Charge for the year:		
Current taxation	275	263
South African normal taxation	313	291
Foreign countries normal taxation	(43)	(58)
South African capital gains taxation	5	30
Deferred taxation	294	215
Secondary tax on companies	21	28
	590	506
	%	%
Taxation rate reconciliation		
Effective taxation rate	32.5	30.4
Tax rate adjustment	–	1.3
Destiny Health losses not provided for	(3.0)	(2.9)
PruHealth losses not provided for	(1.3)	(0.2)
Capital profits and dividend income	1.8	4.8
Impairment on investments	(1.5)	–
Secondary tax on companies	(1.1)	(1.7)
Disallowed expenditure	(0.6)	(1.3)
Other permanent differences	1.2	(2.4)
Standard rate of taxation	28.0	28.0

Current taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers.

Destiny Health has federal tax losses of US$172 million (R1 329 million) (2008: US$150 million (R1 173 million)) to carry forward against future taxable income. These tax losses have not been recognised in the financial statements and are available for set-off against future taxable profits.

During the prior year, PruHealth entered into a transaction with Prudential Assurance Company Limited ("Prudential") to effectively utilise the tax losses that Discovery has been unable to utilise through consortium relief, such that PruHealth's deferred tax asset is replaced with a cash injection from Prudential. Previously, Discovery was only able to account for an asset on 50% of the PruHealth losses for which consortium relief was available to Prudential in the UK. The utilisation of the tax losses has enabled Discovery to account for a receivable for the balance of the PruHealth losses. The impact of this is to reduce the taxation charge in the prior year by R120 million.

37. Earnings per share

	Group 2009	Group 2008
Basic earnings per share		
Earnings per share is based on net profit after tax attributable to equity holders and the weighted number of ordinary shares in issue.		
Earnings attributable to equity holders (R million)	**1 212**	1 156
Weighted number of ordinary shares in issue (000's)	**551 043**	543 016
Basic earnings per share (cents)	**219.9**	212.9
Diluted earnings per share		
Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has two categories of dilutive potential ordinary shares namely: – shares issued from the staff share trusts which have not been delivered to participants; and – shares issued to BEE parties.		
Weighted average ordinary shares in issue (000's) adjusted for:	**551 043**	543 016
Weighted average ordinary shares in the staff share trusts (000's)	**1 481**	4 415
Weighted average ordinary shares issued to BEE parties (000's)	**67**	99
	552 591	547 530
Diluted earnings per share (cents)	**219.3**	211.1
Headline earnings		
Headline earnings per share is based on the net profit after tax attributable to equity holders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation		
Earnings attributable to equity holders (R million)	**1 212**	1 156
Adjusted for:		
– realised profit on available-for-sale financial instruments net of capital gains tax	**(56)**	(222)
– impairment on available-for-sale financial instruments net of capital gains tax	**82**	–
Headline earnings	**1 238**	934
Headline earnings per share (cents)	**224.7**	172.0
Diluted headline earnings per share (cents)	**224.1**	170.5
Headline earnings per share before BEE transaction:		
Headline earnings	**1 238**	934
BEE expenses	**13**	23
Headline earnings before BEE transaction	**1 251**	957
Headline earnings per share before BEE transaction (cents)	**227.1**	176.2
Diluted headline earnings per share before BEE transaction (cents)	**226.5**	174.7

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

38. Dividends per share

The dividends paid in 2009 totalled R269 million and comprised a final dividend of 23 cents per share paid on 20 October 2008 and an interim dividend of 25,5 cents per share paid on 23 March 2009.

The dividends paid in 2008 totalled R236 million and comprised a final dividend of 21 cents per share paid on 22 October 2007 and an interim dividend of 21,5 cents per share paid on 25 March 2008.

39. Cash flow information

	R million	**Group 2009**	Group 2008
39.1	**Cash generated by operations**		
	Profit before taxation	**1 814**	1 664
	Adjusted for:		
	Deferred income	**(10)**	(52)
	Financing costs	**16**	52
	Foreign exchange profit	**–**	(4)
	Operating lease payments in advance	**(6)**	2
	Investment income	**(301)**	(227)
	Realised investment gains and losses	**(120)**	(349)
	Premiums, claims and investment charges for liabilities under investment contracts	**896**	482
	Non-cash items:		
	Amortisation	**59**	40
	Deferred acquisition costs	**(209)**	(103)
	Depreciation	**93**	70
	Impairment of fair value hedge	**9**	19
	Impairment of financial instruments held as available-for-sale	**96**	–
	Provisions	**40**	6
	Share-based payment expenses	**72**	30
	Transfer to liabilities under reinsurance contracts	**859**	(13)
	Transfer from assets/liabilities under insurance contracts	**(965)**	(736)
	Transfer to liabilities under investment contracts	**35**	14
	Translation differences	**39**	(21)
	Unrealised gains on investments at fair value through profit or loss	**129**	89
	Other	**1**	9
	Working capital changes:		
	Loans and receivables including insurance receivables	**(594)**	(484)
	Trade and other payables	**696**	615
		2 649	1 103
39.2	**Taxation paid**		
	Balance at beginning of the year	**(9)**	4
	Taxation charged for the year in the income statement	**(590)**	(506)
	Adjustment for movement in deferred taxation	**294**	215
	Taxation recoverable from consortium relief – PruHealth	**(43)**	(4)
	CGT raised on realised gains on treasury shares	**(4)**	–
	Balance at end of the year	**(83)**	9
		(435)	(282)

	R million	Group 2009	Group 2008
39.3	**Proceeds from issuance of ordinary shares**		
	Deferred delivery shares taken up	**111**	46
	Proceeds from issue of ordinary shares in Destiny Health	**–**	4
		111	50
39.4	**Repayment of borrowings**		
	Balance at the end of the year	**32**	37
	Add: Foreign exchange translation	**–**	(1)
	Add: Interest paid and foreign exchange loss realised	**–**	6
	Less: Balance at the beginning of the year	**(37)**	(73)
		(5)	(31)

40. Commitments

		Group 2009	Group 2008
40.1	**Capital commitments**		
	Capital expenditure approved but not contracted for at the balance sheet date is as follows:		
	Property and equipment	**99**	87
	Intangible assets	**85**	148
		184	235
40.2	**Operating lease commitments**		
	Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.		
	Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from five months to ten years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:		
	Due within one year	**147**	104
	Due within two to five years	**360**	245
	Due after five years	**136**	100
	Cashflow commitment	**643**	449
	Accrued to a liability	**(68)**	(74)
	Net commitment	**575**	375
	Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from one month to five years. The future minimum commitments are as follows:		
	Due within one year	**51**	54
	Due within two to five years	**71**	45
	Cashflow commitment	**122**	99

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

41. Contingencies

The Group is exposed to various actual or potential claims. No material claims have been instituted against Discovery Holdings Limited or any of its subsidiaries.

42. Related parties

List of related parties as defined:

Subsidiaries

Directly owned

Details of subsidiaries directly owned by Discovery are contained in company note 1.

Joint ventures

Details of the joint ventures of Discovery is contained in note 9.

Associates

Details of associates of Discovery are contained in note 8.

Key management personnel

Key management personnel have been defined as Discovery Holdings Limited's directors and executive committee members.

Details of the directors and the executive committee of Discovery Holdings Limited are to be found on page 30 and 32 respectively.

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent specific transactions have occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Transactions with related parties

For purposes of this section Discovery Holdings Limited will be referred to as the Company and where relevant, amounts are excluding value added taxation.

RMB Holdings Limited

Discovery invests from time to time in securities issued by RMB Holdings Limited for the benefit of shareholders and policyholders.

RMB Holdings ordinary shares included in equity investments

	Nominal holding		Market value	
	2009 000's	2008 000's	**2009 R'000**	2008 R'000
– available-for-sale	**1 320**	1 011	**30 953**	21 231
– at fair value through profit or loss	**153**	306	**3 581**	6 435
Holdings as at 30 June	**1 473**	1 317	**34 534**	27 666

Prudential Health Limited ("PruHealth")

In October 2004, Discovery launched PruHealth as a joint venture with Prudential Assurance Company Limited. In terms of the joint venture arrangement, Discovery provides administration and other services to the joint venture. During the year under review, Discovery received fees for these services of R249 million (2008: R206 million).

Discovery Health Medical Scheme ("DHMS")

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed health care fee respectively. These fees are determined on an arm's length basis and totalled R2 498 million (2008: R2 240 million) net of VAT. Discovery offers the members of DHMS access to the Vitality programme.

Interest paid to DHMS amounted to R1 million (2008: R1 million). DHMS owes Discovery R285 million (2008: R248 million) at year-end.

Managed medical schemes

Discovery Health administers the following restricted membership medical schemes:

– Afrisam Medical Scheme
– Anglovaal Group Medical Scheme
– Edcon Medical Aid Scheme
– IBM (SA) Medical Aid Society
– LA Health Medical Scheme
– Lonmin Medical Scheme
– Mmed an option of Naspers Medical Scheme
– Quantum Medical Aid Society
– Retail Medical Scheme
– Tsogo Sun Group Medical Scheme
– Umed Medical Scheme
– University of Kwazulu-Natal Medical Scheme

Discovery Health charges theses schemes administration fees which are determined on an arm's length basis.

These fees totalled R140 million (2008: R125 million) net of VAT. Amounts due to Discovery at year end totalled R18 million (2008: R15 million).

Discovery Consulting Services

Discovery has established a network of 34 franchises in order to establish a national footprint for its products. Discovery has paid R177 million (2008: R185 million) in fees to the franchises.

The Discovery Foundation

The Discovery Foundation was established as part of Discovery's BEE transaction announced on 13 September 2005. As part of the BEE transaction, the Foundation will have the majority of its trustees being black South Africans. Its objective will be the economic upliftment of black South Africans. Amongst its initial programmes, the Foundation will focus on the educational and professional development of black South Africans for the medical and health care industry.

The Discovery Foundation received contributions from Discovery of R5.5 million during the year (2008: R5.4 million).

Transactions with share trusts

Loans to share trusts amounted to R163 million at 30 June 2009 (2008: R99 million). Interest received on these loans amounted to R19 million (2008: R8 million).

Discovery staff retirement funds

A pension and provident fund has been set-up specifically for the Discovery staff. Contributions made to this fund during the year amounted to R76 million (2008: R64 million).

Notes to the annual financial statements (continued)

for the year ended 30 June 2009

42. Related parties (continued)

Key management personnel of Discovery Holdings Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

(i) Discovery Holdings Limited directors' and executive committee members' aggregate compensation paid by the company or on behalf of the company for services rendered to Discovery Holdings Limited:

R million	Group 2009	Group 2008
Salaries and other short-term employee benefits	**58**	38
Share-based payments		
– Other key management personnel: BEE transaction	**–**	2
– Other key management personnel: Other share-based payments	**3**	3
Directors' fees	**4**	3
Total	**65**	46
Less: paid by subsidiaries	**(65)**	(46)
Paid by holding company	**–**	–

(ii) Aggregate details of insurance, annuity and investment transactions between Discovery Holdings Limited, any subsidiary, associate or joint venture of Discovery Holdings Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

	Aggregate insured cover		Premiums received		Claims paid	
R'000	**2009**	2008	**2009**	2008	**2009**	2008
Life	**363 966**	271 585	**1 636**	1 336	**–**	–

Investment contracts

	Fund value	
R'000	**2009**	2008
Balance at 1 July	**642**	60
Premiums received	**923**	611
Investment return credited net of charges	**(111)**	(29)
Balance at 30 June	**1 454**	642

(iii) Aggregate details of transactions between Vitality Healthstyle (Pty) Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty program

	Premiums received		Amounts paid	
R'000	**2009**	2008	**2009**	2008
Vitality benefits	**18**	22	**60**	102

DiscoveryCard

	Card fees received		Discounts paid	
R'000	**2009**	2008	**2009**	2008
DiscoveryCard	**20**	9	**283**	244

Key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management accrued 1 663 801 Discovery miles as part of the DiscoveryCard loyalty program for the year ended 30 June 2009 (2008: 1 551 406).

(iv) Aggregate shareholdings of key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management, in Discovery Holdings Limited as at 30 June 2009 was 109 459 055 ordinary shares (2008: 111 283 139 ordinary shares).

43. Comparative figures

Assets arising from insurance contracts were previously shown net of associated Liabilities arising from reinsurance contracts. These amounts have now been disclosed on a gross basis and the comparative balance sheet has been restated. The restatement results in an increase of R245 million in relation to the Assets arising from insurance contracts and a corresponding increase in the Liabilities arising from reinsurance contracts. The restatement has no impact on the Group's comparative net profit, nor the Group's comparative basic and diluted earnings per share, nor the Group's comparative cash flows. The adjustment is analysed in the table below.

June 2008 R million	Original comparative	Adjustment	Adjusted comparative
Balance sheet:			
Assets arising from insurance contracts	3 920	245	4 165
Liabilities arising from reinsurance contracts	(15)	(245)	(260)
	3 905	0	3 905
Income statement:			
Transfer from assets/liabilities under insurance contracts			
– change in assets arising from insurance contracts	806	(15)	791
– change in liabilities arising from reinsurance contracts	(2)	15	13
	804	0	804

44. Events after balance sheet date

The board has declared a final dividend of 33 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 9 October 2009
– Date trading commences "ex" dividend	Monday, 12 October 2009
– Record date	Friday, 16 October 2009
– Date of payment	Monday, 19 October 2009

Share certificates may not be dematerialised or rematerialised between Monday, 12 October 2009 and Friday, 19 October 2009, both days inclusive.

DISCOVERY HOLDINGS LIMITED

Company balance sheet

at 30 June 2009

R million	Notes	Company 2009	Company 2008
Assets			
Investments in subsidiaries	1	**2 016**	2 152
Loan to share incentive trust	2	**158**	217
Cash and cash equivalents	3	**67**	18
Total assets		**2 241**	2 387
Equity			
Capital and reserves			
Share capital and share premium	4	**1 744**	1 716
Other reserves		**293**	278
Retained earnings		**(63)**	269
Total equity		**1 974**	2 263
Liabilities			
Trade and other payables		**262**	122
Current income tax liabilities		**5**	2
Total liabilities		**267**	124
Total liabilities and equity		**2 241**	2 387

Company income statement

for the year ended 30 June 2009

R million	Company 2009	Company 2008
Investment income	**514**	875
Marketing and administration expenses	**(3)**	(18)
Net impairment of investment in subsidiaries	**(530)**	(113)
(Loss)/profit before taxation	**(19)**	744
Taxation	**(26)**	(30)
(Loss)/profit for the year	**(45)**	714

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Company statement of changes in equity

for the year ended 30 June 2009

R million	Share capital	Share premium	Retained earnings	Share-based payment reserve	Total
30 June 2008					
Balance at 1 July 2007	1	1 715	(192)	248	1 772
Net profit for the year	–	–	713	–	713
Dividends paid	–	–	(252)	–	(252)
Movement in share-based payment reserve	–	–	–	30	30
Balance at 30 June 2008	1	1 715	269	278	2 263
30 June 2009					
Balance at 1 July 2008	**1**	**1 715**	**269**	**278**	**2 263**
Realised gains on treasury shares	**–**	**33**	**–**	**–**	**33**
Capital gains tax on realised gains on treasury shares	**–**	**(5)**	**–**	**–**	**(5)**
Net profit for the year	**–**	**–**	**(45)**	**–**	**(45)**
Dividends paid	**–**	**–**	**(287)**	**–**	**(287)**
Movement in share-based payment reserve	**–**	**–**	**–**	**15**	**15**
Balance at 30 June 2009	**1**	**1 743**	**(63)**	**293**	**1 974**

Company cash flow statement

for the year ended 30 June 2009

R million	Notes	Company 2009	Company 2008
Cash flow from operating activities		**604**	811
Cash utilised by operations	5.1	**137**	(27)
Dividends received		**493**	865
Interest received		**2**	1
Taxation paid	5.2	**(28)**	(28)
Cash flow from investing activities		**(268)**	(562)
Increase in investment in subsidiary	5.3	**(379)**	(507)
(Decrease)/increase in loan to share incentive trust	5.4	**111**	(55)
Cash flow from financing activities		**(287)**	(252)
Dividends paid to equity holders		**(287)**	(252)
Decrease/(increase) in cash and cash equivalents		**49**	(3)
Cash and cash equivalents at beginning of year		**18**	21
Cash and cash equivalents at end of year	3	**67**	18

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Notes to the annual financial statements

for the year ended 30 June 2009

1. Investments in subsidiaries

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries[3] R million		Amounts owing to subsidiary[4] R million	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Discovery Life Limited	**1 016**	1 016	**100**	100	**1 296**	1 294	**–**	3
Discovery Health (Proprietary) Limited	*****	*	**100**	100	**192**	180	**261**	118
Vitality Healthstyle (Proprietary) Limited	******	**	**100**	100	**7**	6	**–**	–
Discovery Life Investment Services (Proprietary) Limited	**3**	3	**100**	100	**3**	3	**–**	–
Discovery Life Collective Investments (Proprietary) Limited	**15**	15	**100**	100	**15**	15	**–**	–
Destiny Health Inc[1]	**1 368**	1 121	**99**	98	**93**	33	**–**	–
Discovery Offshore Holdings Limited[2]	**996**	877	**100**	100	**410**	621	**–**	–
					2 016	2 152	**261**	121

** Issued ordinary capital and shares at cost are R1 000.*
*** Issued ordinary capital and shares at cost are R1.*
(1) Incorporated in the United States of America.
(2) Incorporated in England and Wales.
(3) Investments in subsidiaries includes cost, less impairments and the value of share options issued to subsidiary staff.
(4) The amount owing to a subsidiary are included in the balance sheet with current liabilities.

2. Loan to share incentive trust

R million	**Company 2009**	Company 2008
Loan to share incentive trust	**217**	154
Increase in loan	**33**	109
Repayment on delivery of shares	**(111)**	(54)
Interest receivable	**19**	8
	158	217

The loan will be repaid on delivery of the shares under the share incentive scheme. Refer to Group note 32.

3. Cash and cash equivalents

Cash at bank and in hand	**6**	18
Short-term deposits	**61**	–
	67	18

4. Share capital and share premium

	Number of shares	Ordinary shares R million	Share premium R million	Total R million
At 30 June 2008	591 953 180	1	1 715	1 716
Realised gains from the reissue of treasury shares net of CGT	–	–	28	28
At 30 June 2009	**591 953 180**	**1**	**1 743**	**1 744**

The total authorised number of ordinary shares is 1 billion (2008: 1 billion), with a par value of 0.1 cents per share.

5. Cash flow information

R million	Company 2009	Company 2008
5.1 Cash utilised by operations		
(Loss)/profit before taxation	**(19)**	744
Adjusted for:		
Investment income	**(514)**	(875)
Non-cash items:		
Impairment of investment in subsidiaries	**530**	113
Working capital changes:		
Trade and other payables	**140**	(9)
	137	(27)
5.2 Taxation paid		
Balance at the beginning of the year	**(2)**	–
Taxation charged for the year in the income statement	**(26)**	(30)
CGT raised on realised gains on treasury shares	**(5)**	–
Balance at end of year	**5**	2
	(28)	(28)
5.3 Increase in investment in subsidiaries		
Balance at the beginning of the year	**2 152**	1 728
Impairment of investment in subsidiaries	**(530)**	(113)
Share-based payment expense in respect of subsidiaries	**15**	30
Balance at the end of the year	**(2 016)**	(2 152)
Increase in investment in subsidiaries	**(379)**	(507)
5.4 Decrease/(increase) in loan to share incentive trust		
Balance at the beginning of the year	**217**	154
Realised gains on treasury shares held in share trust	**33**	–
Interest receivable	**19**	8
Balance at the end of the year	**(158)**	(217)
	111	(55)

6. Contingencies

Discovery Holdings Limited has provided a guarantee in favour of HSBC Bank in the amount of US$20 million for the working capital facility of Destiny Health Inc.

Discovery Holdings Limited has also provided the following guarantees:

- In terms of the alliance agreement with Guardian Life Insurance Company ("GLIC"), Discovery Holdings Limited has guaranteed the obligations of Destiny to GLIC in terms of this agreement.
- In terms of the shareholders agreement between Discovery Offshore Holdings Limited, The Prudential Assurance Company Limited and Prudential Health Limited, Discovery Holdings Limited has guaranteed the obligations of Discovery Offshore Holdings Limited to The Prudential Assurance Company Limited and Prudential Health Limited in terms of this agreement.
- Discovery Health provides certain administration and ancillary services to PruHealth in terms of the Insurance Intermediary Services agreement. Discovery Holdings Limited has guaranteed the obligations of Discovery Health in terms of this agreement.
- In terms of the agreement with Aegon, Discovery Holdings Limited has guaranteed the obligations of Destiny to Stonebridge Life Insurance Company.
- PruHealth has provided certain volume guarantees to its reinsurance providers. Discovery has guaranteed half of these obligations.

7. Special resolutions

The following special resolutions were approved during the financial year:

(i) at the annual general meeting of shareholders held on Thursday, 4 December 2008:

- the company and/or any of its subsidiaries are authorised by general approval to acquire ordinary shares issued by the Company.

(ii) at the general meeting of shareholders held on Thursday, 23 April 2009:

- the Company's articles of association be amended by insertion of new article 8A relating to odd-lot offers; and
- the Company's wholly-owned subsidiary, Discovery Health, is authorised by way of a specific authority to acquire, at the offer price of R25,18 per share, the shares from the Company's shareholders in terms of the Circular to Shareholders dated 23 March 2009.

Directorate

Remuneration and fees

Payments to directors for the year ended 30 June 2009 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	Total 2009
Executive						
A Gore	–	2 918	1 610	438	190	5 156
NS Koopowitz	–	2 908	2 568	145	131	5 752
HP Mayers	–	2 523	2 481	504	190	5 698
A Pollard	–	2 114	1 384	159	179	3 836
JM Robertson	–	1 938	1 315	395	51	3 699
B Swartzberg	–	2 685	1 698	273	49	4 705
Subtotal	–	15 086	11 056	1 914	790	28 846
Non-executive						
MI Hilkowitz (Israel)	862	–	–	–	–	862
Dr BA Brink[2]	207	–	–	–	–	207
P Cooper[5]	375	–	–	–	–	375
Dr NJ Dlamini	190	–	–	–	–	190
SB Epstein	422	–	–	–	–	422
Dr TV Maphai	244	–	–	–	–	244
AL Owen	633	–	–	–	–	633
SE Sebotsa	277	–	–	–	–	277
T Slabbert[3]	313	–	–	–	–	313
SV Zilwa	428	–	–	–	–	428
Subtotal	3 951	–	–	–	–	3 951
Total	3 951	15 086	11 056	1 914	790	32 797
Less: paid by subsidiaries	(3 951)	(15 086)	(11 056)	(1 914)	(790)	(32 797)
Paid by holding company	–	–	–	–	–	–

Payments to directors for the year ended 30 June 2008 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	Total 2008
Executive						
A Gore	–	1 886	344	283	126	2 639
NS Koopowitz	–	2 371	340	119	74	2 904
HP Mayers	–	2 024	341	405	136	2 906
A Pollard	–	1 745	416	131	97	2 389
JM Robertson	–	1 603	267	327	33	2 230
B Swartzberg	–	1 635	276	167	38	2 116
SD Whyte	139	–	342	237	1 504	2 222
Subtotal	139	11 264	2 326	1 669	2 008	17 406
Non-executive						
MI Hilkowitz (Israel)	627	–	–	–	–	627
Dr BA Brink[2]	187	–	–	–	–	187
P Cooper[5]	170	–	–	–	–	170
Dr NJ Dlamini	312	–	–	–	–	312
SB Epstein	387	–	–	–	–	387
Dr TV Maphai	187	–	–	–	–	187
AL Owen	409	–	–	–	–	409
SE Sebotsa[3]	235	–	–	–	–	235
T Slabbert	141	–	–	–	–	141
SV Zilwa	347	–	–	–	–	347
LL Dippenaar	183	–	–	–	–	183
JP Burger[4]	162	–	–	–	–	162
PK Harris[4]	93	–	–	–	–	93
Subtotal	3 440	–	–	–	–	3 440
Total	3 579	11 264	2 326	1 669	2 008	20 846
Less: paid by subsidiaries	(3 579)	(11 264)	(2 326)	(1 669)	(2 008)	(20 846)
Paid by holding company	–	–	–	–	–	–

(1) "Other benefits" comprises medical aid contributions, travel and other allowances.

(2) Directors fees for services rendered by Dr BA Brink are paid to Anglo American South Africa Limited.

(3) Directors fees for services rendered by T Slabbert in 2009 and SE Sebotsa in 2008, were paid to WDB Holdings (Pty) Ltd.

(4) Directors fees for services rendered by JP Burger and PK Harris were paid to FirstRand Limited.

(5) Directors fees for services rendered by P Cooper were paid to RMB Holdings Limited.

The executive directors participate in group share incentive schemes. Their participation is subject to the approval of the Discovery remuneration committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

Directorate (continued)

Directors' interests

According to the Register of Directors' interests, maintained by Discovery in accordance with the provisions of section 140A of the Companies Act, directors of Discovery have disclosed the following interest in the ordinary shares of the company at 30 June:

	Direct beneficial	Indirect beneficial	Total 2009	Total 2008
Dr BA Brink	30 000	–	30 000	30 000
P Cooper	55 076	55 016	110 092	110 092
Dr NJ Dlamini	–	–	–	206 572
SB Epstein	34 750	–	34 750	34 750
A Gore	1 431 962	54 644 046	56 076 008	55 826 008
NS Koopowitz	865 485	1 627 602	2 493 087	2 673 087
Dr TV Maphai	149	1 163 935	1 164 084	1 141 084
HP Mayers	602 806	7 874 497	8 477 303	8 417 303
AL Owen	30 668	–	30 668	–
A Pollard	2 530 395	–	2 530 395	2 680 395
JM Robertson	1 404 639	3 390 481	4 795 120	4 815 434
B Swartzberg	4 153 322	24 963 265	29 116 587	29 116 587
SV Zilwa	–	211 110	211 110	206 800
	11 139 252	93 929 952	105 069 204	105 258 112

There has been no change in the directors' interests in Discovery Holdings Limited's shares between 30 June 2009 and the date of publication of this annual report.

Phantom share scheme

The phantom share scheme is more fully described in note 32.1. Outstanding units in respect of the phantom share scheme as at 30 June 2009 issued to directors were:

Discovery phantom scheme	Outstanding shares	Date granted	Option price	Final vesting date
A Gore	86 625	30/09/2005	R21.50	30/09/2010
	173 250	30/09/2006	R22.30	30/09/2011
	66 000	30/09/2007	R26.40	30/09/2012
	20 000	30/09/2007	R0.00	30/09/2012
	75 000	30/09/2008	R0.00	30/09/2013
NS Koopowitz	86 625	30/09/2005	R21.50	30/09/2010
	173 250	30/09/2006	R22.30	30/09/2011
	66 000	30/09/2007	R26.40	30/09/2012
	20 000	30/09/2007	R0.00	30/09/2012
	75 000	30/09/2008	R0.00	30/09/2013
HP Mayers	86 625	30/09/2005	R21.50	30/09/2010
	52 500	30/09/2006	R0.00	30/09/2011
	66 000	30/09/2007	R26.40	30/09/2012
	20 000	30/09/2007	R0.00	30/09/2012
	75 000	30/09/2008	R0.00	30/09/2013
A Pollard	60 225	30/09/2005	R21.50	30/09/2010
	173 250	30/09/2006	R22.30	30/09/2011
	99 000	30/09/2007	R26.40	30/09/2012
	10 000	30/09/2007	R0.00	30/09/2012
	75 000	30/09/2008	R0.00	30/09/2013
JM Robertson	86 625	30/09/2005	R21.50	30/09/2010
	86 625	30/09/2006	R22.30	30/09/2011
	26 250	30/09/2006	R0.00	30/09/2011
	66 000	30/09/2007	R26.40	30/09/2012
	20 000	30/09/2007	R0.00	30/09/2012
	75 000	30/09/2008	R0.00	30/09/2013
B Swartzberg	43 313	30/09/2005	R21.50	30/09/2010
	13 125	30/09/2005	R0.00	30/09/2010
	86 625	30/09/2006	R22.30	30/09/2011
	26 250	30/09/2006	R0.00	30/09/2011
	66 000	30/09/2007	R26.40	30/09/2012
	20 000	30/09/2007	R0.00	30/09/2012
	75 000	30/09/2008	R0.00	30/09/2013

The phantom share scheme pays a bonus calculated on each vesting date linked to the share price. One quarter of these units vest on each of the second, third, fourth and fifth anniversary of the grant date. In the calculation of the bonus, the participants could choose to replicate the economics of a Discovery share or a call option over a Discovery share or a combination of both for the 2005, 2006 and 2007 allocations and only that of a Discovery share for the 2008 allocation.

Analysis of shareholders

for the year ended 30 June 2009

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	10 723	75.61	2 756 123	0.47
1 001 – 10 000 shares	2 397	16.90	7 424 638	1.25
10 001 – 100 000 shares	726	5.12	24 591 614	4.15
100 001 – 1 000 000 shares	260	1.83	85 830 754	14.50
1 000 001 shares and over	76	0.54	471 350 051	79.63
	14 182	100.00	591 953 180	100.00
Distribution of shares				
Banks	95	0.67	26 454 182	4.47
Brokers	40	0.28	11 340 049	1.92
Close Corporations	103	0.73	622 312	0.10
Empowerment	3	0.02	36 091 707	6.10
Endowment Funds	31	0.22	1 605 848	0.27
Individuals	11 211	79.05	28 152 916	4.75
Insurance companies	55	0.39	18 212 471	3.08
Investment companies	34	0.24	60 369 335	10.20
Medical Aid Schemes	13	0.09	551 851	0.09
Mutual Funds	294	2.07	69 757 286	11.78
Nominees and Trusts	1 478	10.42	50 546 075	8.54
Other Corporations	136	0.96	267 971	0.05
Pension Funds	304	2.14	58 655 895	9.91
Private companies	363	2.56	47 934 182	8.10
Public companies	21	0.15	175 947 823	29.72
Share Trusts	1	0.01	5 443 277	0.92
	14 182	100.00	591 953 180	100.00
Public/non-public shareholders				
Non-public shareholders	20	0.14	315 074 014	53.23
Directors of the Company holdings	12	0.08	105 069 204	17.75
Strategic holdings (more than 10%)	1	0.01	148 048 168	25.01
Empowerment	6	0.04	56 513 365	9.55
Share Trust	1	0.01	5 443 277	0.92
Public shareholders	14 162	99.86	276 879 166	46.77
	14 182	100.00	591 953 180	100.00

	Number of shares	%
Beneficial shareholders holding of 5% or more		
RMB Holdings Limited	148 048 168	25.01
Gore, A	56 076 008	9.47
Public Investment Corporation	29 831 332	5.04

Administration

Discovery Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number 1999/007789/06)
JSE share code: DSY
ISIN: ZAE000022331

Registered office

155 West Street
Sandton
2196

PO Box 786722
Sandton
2146

Telephone (011) 529 2888
Fax (011) 539 2958
e-mail: AskTheCFO@discovery.co.za

Secretary

MJ Botha

Auditors

PricewaterhouseCoopers Inc.

Statutory valuator

RD Williams

Transfer Secretaries

Computershare Investor Services (Pty) Limited
(Registration number 2004/003647/07)
Ground Floor
70 Marshall Street
Johannesburg
2001

PO Box 61051
Marshalltown
2017

Sponsors

(In terms of the JSE Limited listings requirements)
RMB Corporate Finance
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

Financial calendar

Financial year-end	30 June
Annual general meeting	1 December 2009

Reports

Interim results	February
Annual results	September
Annual report	November

Dates are subject to change.

Notice of annual general meeting of shareholders

DISCOVERY HOLDINGS LIMITED

(Registration number: 1999/007789/06)
ISIN: ZAE000022331
Share code: DSY

Notice is hereby given that the tenth annual general meeting of the shareholders of Discovery Holdings Limited ("the company") will be held in the Auditorium, Ground Floor, 155 West Street, Sandton, on Tuesday, 1 December 2009 at 12:00 to pass the following resolutions with or without amendments:

Ordinary business

1. To receive, consider and approve the annual financial statements for the year ended 30 June 2009 and the report of the directors and the auditors thereon.
2. To confirm the appointment of Mr R Farber as an executive director on 1 July 2009.
3. To elect a director in place of Dr BA Brink who retires in accordance with the company's Articles of Association ("Articles"), but, being eligible, offers himself for re-election.
4. To elect a director in place of Mr AL Owen who retires in accordance with the company's Articles, but, being eligible, offers himself for re-election.
5. To elect a director in place of Ms T Slabbert who retires in accordance with the company's Articles, but, being eligible, offers herself for re-election.
6. A brief curriculum vitae of each of the directors mentioned above can be found on pages 30 and 31 of the annual report to which this notice forms part.
7. To confirm the directors' fees paid by the company for the year ended 30 June 2009 as per the notes to the annual financial statements.
8. To confirm the re-appointment of PricewaterhouseCoopers Inc. as independent auditors of the company and Mr AG Taylor as the individual designated auditor who will undertake the audit for the company for the ensuing year.
9. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 2009.
10. To approve the financial assistance to Ms Sonja Sebotsa ("Sebotsa") in terms of the proposed special resolution 1 below.
11. To approve special resolution 2 described below.
12. To transact such other business as may be transacted at an annual general meeting.

Special Resolution Number 1 – Financial assistance

"**RECORDED THAT**, the board of directors of Discovery Health (Proprietary) Limited ("Discovery Health"), a wholly owned subsidiary of Discovery Holdings Limited ("Discovery"), has resolved to remunerate Ms Sonja Sebotsa (Identity No. 711215 0879 084) ("Sebotsa") for services rendered by her to Discovery Health from time to time in her capacity as non-executive director on the basis set out below:

- on 30 September 2011, Discovery Health shall, as consideration for the services rendered by Sebotsa to Discovery Health during the 2010 financial year, pay to Sebotsa the Rand value of Y, where Y is equal to 19 965 multiplied by the 5 (five) day volume weighted average price on the Johannesburg Stock Exchange (the "JSE") per Discovery share for the 5 (five) trading days prior to 30 September 2011, the net after tax proceeds of which are forthwith to be used by Sebotsa to acquire that number of ordinary shares (the "Discovery shares") in the issued share capital of Discovery on the JSE as is equal to such net after tax proceeds;
- on 30 September 2012, Discovery Health shall, as consideration for the services rendered by Sebotsa to Discovery Health during the 2011 financial year, pay to Sebotsa the Rand value of Y where Y is equal to 19 965 multiplied by the 5 (five) day volume weighted average price on the JSE per Discovery share for the 5 (five) trading days prior to 30 September 2012, the net after tax proceeds of which are forthwith to be used by Sebotsa to acquire that number Discovery shares on the JSE as is equal to such net after tax proceeds;
- on 30 September 2013, Discovery Health shall, as consideration for the services rendered by Sebotsa to Discovery Health during the 2012 financial year, pay to Sebotsa the Rand value of Y where Y is equal to 19 965 multiplied by the 5 (five) day volume weighted average price on the JSE per Discovery share for the 5 (five) trading days prior to 30 September 2013, the net after tax proceeds of which are forthwith to be used by Sebotsa to acquire that number Discovery shares on the JSE as is equal to such net after tax proceeds;
- on 30 September 2014, Discovery Health shall, as consideration for the services rendered by Sebotsa to Discovery Health during the 2013 financial year, pay to Sebotsa the Rand value of Y where Y is equal to 19 965 multiplied by the 5 (five) day volume weighted average price on the JSE per Discovery share for the 5 (five) trading days prior to 30 September 2014, the net after tax proceeds of which are forthwith to be used by Sebotsa to acquire that number Discovery shares on the JSE as is equal to such net after tax proceeds;
- in addition to the remuneration contemplated above, on each of the 30th of September 2011, the 30th of September 2012, the 30th of September 2013 and the 30th of September 2014, Discovery Health shall pay to Sebotsa, as consideration for services rendered by her in respect of the relevant preceding financial year, the Rand value of X in the formula below:

$$X = \left(\frac{A - B}{A}\right) \times C$$

where:

X = the remuneration payment;

A = the 5 (five) day volume weighted average price on the JSE per Discovery share for the 5 (five) trading days prior to 30 September of that year;

B = the 5 (five) day volume weighted average price on the JSE per Discovery share for the 5 (five) trading days prior to 30 September 2009;

C = 60 000 (sixty thousand);

should A be less than B, X shall be zero and no remuneration payment will be made to Sebotsa for the year in question;

Upon receipt by Sebotsa of the remuneration payment which constitutes X in the formula above, Sebotsa shall forthwith use the net after tax proceeds of such payment to acquire that number of Discovery shares on the JSE as is equal to such net after tax proceeds;

- should Sebotsa cease to be a non-executive director of Discovery Health, then (with effect from the date upon which she ceases to be a non-executive director of Discovery Health), she shall cease to be entitled to all and any the above-mentioned benefits; and
- the remuneration and benefits contemplated above is in addition to the usual remuneration and benefits conferred upon the non-executive directors of Discovery Health in line with Discovery's policy prevailing from time to time.

RESOLVED THAT, to the extent that the implementation of the remuneration and benefits contemplated above results in any form of direct or indirect financial assistance to Sebotsa for the acquisition of Discovery shares, subject to the board of directors of Discovery being satisfied that the requirements of section 38(2A)(a) of the Companies Act, 1973 (as amended) (the "Companies Act") are satisfied, Discovery is hereby authorised in terms of section 38(2A)(b) of the Companies Act to give such direct or indirect financial assistance to Sebotsa for the acquisition of Discovery shares (the "Financial Assistance").

Statement by the Directors of Discovery Health

After considering the remuneration and benefits contemplated above, the directors are of the opinion that subsequent to the granting of the Financial Assistance:

- Discovery will be able to pay its debts as they become due in the ordinary course of business; and
- the consolidated assets of Discovery, fairly valued, will be in excess of the liabilities of Discovery. For this purpose, the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the audited annual financial statements.

Reason for and Effect of Special Resolution Number 1

Sebotsa did not participate in the BEE deal undertaken by Discovery in 2005. Accordingly, the directors have proposed the above resolution which will enable Sebotsa to receive a benefit in a similar manner to the other black non-executive directors on the Discovery board.

The reason for, and effect of, special resolution number 1 is to permit Discovery to provide Financial Assistance to Sebotsa for the acquisition of Discovery shares to the extent that the remuneration and benefits contemplated above results in Financial Assistance.

Special resolution 2 – General authority to repurchase shares

"RESOLVED THAT, as a general approval contemplated in sections 85 to 89 of the Companies Act no 61 of 1973, as amended ("the Act"), the acquisitions by the company, and/or any subsidiary of the company, from time to time of the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, be and is hereby authorised, but subject to the Articles of Association of the company, the provisions of the Act, as amended and the JSE Limited ("JSE") Listings Requirements when applicable, and provided that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter-party (reported trades are prohibited);
- this general authority shall be valid until the company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- an announcement will be published as soon as the company has acquired ordinary shares constituting, on a cumulative basis, 3% of the initial number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with paragraph 11.27 of the JSE Listings Requirements;
- acquisitions of ordinary shares in aggregate in any one financial year may not exceed 20% of the company's issued ordinary share capital as at the date of the grant of this general authority;
- ordinary shares may not be acquired at a price greater than 10% above, the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the 5 (five) business days immediately preceding the date of repurchase of such ordinary shares. The JSE should be consulted for a ruling if the company's securities have not traded in such 5 business day period;
- at any point in time, the company may only appoint one agent to effect any repurchase on the company's behalf;
- the company undertaking that it will not enter the market to repurchase the company's securities until the company's sponsor has provided written confirmation to the JSE regarding the adequacy of the company's working capital in accordance with Schedule 25 of the JSE Listings Requirements;
- the company remain in compliance with the shareholder spread requirements of the JSE Listings Requirements;
- the company not repurchase any shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to

Notice of annual general meeting of shareholders (continued)

be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and

- before entering the market to effect the general repurchase, the directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, will ensure that for a period of 12 (twelve) months after the date of the general repurchase:
  - the company, and the Group, will be able, in the ordinary course of business, to pay its debts;
  - the company and the Group's assets, fairly valued in accordance with the accounting policies used in the latest audited consolidated annual financial statements, will exceed the liabilities of the company and the Group for a period of 12 months after the date of the general repurchase;
  - the company, and all of its subsidiaries', share capital and reserves will be adequate for ordinary business purposes; and
  - the available working capital of the company, and the Group, will be adequate for the ordinary business purposes of the business of the company, and all of its subsidiaries.

Reason and effect

The reason and effect for special resolution 2 is to authorise the company and/or its subsidiary company by way of a general authority to acquire its own issued shares on such terms, conditions and in such amounts as determined from time to time by the directors of the company subject to the limitations set out above.

Other disclosure in terms of the JSE Listings Requirements Section 11.26

The JSE Listings Requirements require the following disclosure, some of which are elsewhere in the annual report of which this notice forms part as set out below:

Directors and management – pages 30 and 32;

Major shareholders of the company – page 182;

Directors' interests in securities – page 180; and

Share capital of the company – page 176.

Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on page 30 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position.

Directors' responsibility statement

The directors, whose names are given on page 30 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

Material change [11.26 (b) (iii)]

Other than the facts and developments reported on in the annual report, there have been no material changes in the financial position of the company and its subsidiaries since the date of signature of the audit report and the date of this notice.

Statement of board's intention [11.26 (c)]

The directors of the company have no specific intention to effect the provisions of special resolution number 2 but will however, continually review the company's position, having regard to prevailing circumstances and market conditions, in considering whether to effect the provisions of special resolution number 2."

Voting and proxies

Shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the registered office of the company/company's transfer secretaries, Computershare Investor Services (Pty) Limited at Ground Floor, 70 Marshall Street, Johannesburg, 2001 or PO Box 61051, Marshalltown 2107 by no later than 09:00 on Friday, 27 November 2009.

On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company shall have one vote for every share held in the company by such shareholder.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own name" registration, should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Equity securities held by a share trust or scheme will not have their votes at the annual general meeting taken into account for the purposes of the JSE Listings Requirements.

Please note that unlisted securities, if applicable and shares held as treasury shares may also not vote.

By order of the board

MJ Botha
Company Secretary

Form of proxy

DISCOVERY HOLDINGS LIMITED

(Registration number: 1999/007789/06)
ISIN: ZAE000022331
Share code: DSY
("Discovery" or "the company")

For use by shareholders, who have not dematerialised their shares or who have dematerialised their shares but with own name registration ("entitled shareholders"), at the annual general meeting to be held at 12:00 on Tuesday, 1 December 2009, in the Auditorium, Ground Floor, 155 West Street, Sandton.

Shareholders who have not dematerialised their shares, other than those shareholders who have dematerialised their shares with own name registration should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

FORM OF PROXY FOR THE TENTH ANNUAL GENERAL MEETING OF DISCOVERY HOLDINGS LIMITED

I/We (name in block letters)

of (address)

being a shareholder of Discovery Holdings Limited and entitled to votes do hereby appoint:

1. of or failing him
2. of or failing him
3. the chairman of the company, or failing him, the chairman of the annual general meeting as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the company to be held in the Auditorium, Ground Floor, 155 West Street, Sandton, on Tuesday, 1 December 2009 at 12:00 for the following purposes:

I/We desire to vote as follows:

	In favour*	Against*	Abstain*
1. To receive, consider and approve the annual financial statements for the year ended 30 June 2009			
2. To confirm the appointment of director Mr R Farber			
3. To re-elect director Dr BA Brink			
4. To re-elect director Mr AL Owen			
5. To re-elect director Ms T Slabbert			
6. To confirm the directors' fees paid by the company for the year ended 30 June 2009			
7. To confirm the re-appointment of PricewaterhouseCoopers Inc. as auditors until the forthcoming annual general meeting			
8. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 2009			
9. Special resolution 1: To approve the financial assistance to Ms S Sebotsa			
10. Special resolution 2: General authority to repurchase shares			

**Note:* *Insert an "X" in the relevant spaces above according to the manner in which you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in Discovery, insert the number of shares held in respect of which you desire to vote (see note 6 overleaf).*

Signed at on 2009

Signature of shareholder

Assisted by (where applicable) (state capacity and full name)

Please read the notes appearing on the reverse hereof

Notes to form of proxy

1. Only shareholders who have dematerialised their shares or who have dematerialised their shares and registered them in their own name ("certificated or own name dematerialised shareholders") may complete a form of proxy or alternatively attend the meeting.
2. Certificated shareholders whose shares are not registered in their own names but in the name of another person, eg, a nominee, may NOT complete a form of proxy nor attend the meeting unless a form of proxy is issued to them by the registered shareholder.
3. A certificated or own name dematerialised shareholder may insert the name of a proxy or the name of two alternate proxies of his/her choice in the space provided, with or without deleting "the chairman of the annual general meeting". Such shareholder must initial any such deletion. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
4. A certificated or own name dematerialised shareholder's instructions to the proxy must be indicated by the insertion of an X in the appropriate space/s provided (or, if such shareholder wishes to cast his/her votes in respect of a lesser number of shares than he/she owns in the company, he/she must insert the number of shares held in respect of which he/she wishes to vote). Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all such shareholder's votes exercisable thereat but, where the proxy is the chairman, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A certificated or own name dematerialised shareholder or his/her proxy is not obliged to use all the votes exercisable by such shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
5. Certificated or own name dematerialised shareholders are advised that the company has appointed Computershare as the shareholder communications consultant. To be effective, forms of proxy must be received by Computershare Investor Services (Pty) Limited at Ground Floor, 70 Marshall Street, Johannesburg, 2001 or PO Box 61051, Marshalltown 2107, by no later than 09:00 on Friday, 27 November 2009.
6. The completion and lodging of this form of proxy will not preclude the relevant certificated or own name dematerialised shareholder from attending the annual general meeting and speaking and voting in person thereat instead of the proxy should such shareholder wish to do so.
7. The chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
8. Any alteration to this form of proxy other than a deletion of alternatives must be initialled by the signatories.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless recorded by the company or waived by the chairman.
10. Where there are joint holders of shares:
    - 10.1 any holder may sign the form of proxy; and
    - 10.2 the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
11. Shareholders who have dematerialised their shares and registered them in a name other than their own name ("dematerialised shareholders") and who wish to attend the meeting in person may only do so by timeously requesting their Central Security Depositary Participant ("CSDP") or broker to issue them with a letter of representation in terms of the custody agreements entered into with the registered holder.
12. Dematerialised shareholders who do not wish to attend the meeting in person must contact their CSDP or broker and provide them timeously with their voting instructions, in the manner and cut-off time stipulated by their CSDP or broker.

www.discovery.co.za

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