

# Audited financial results

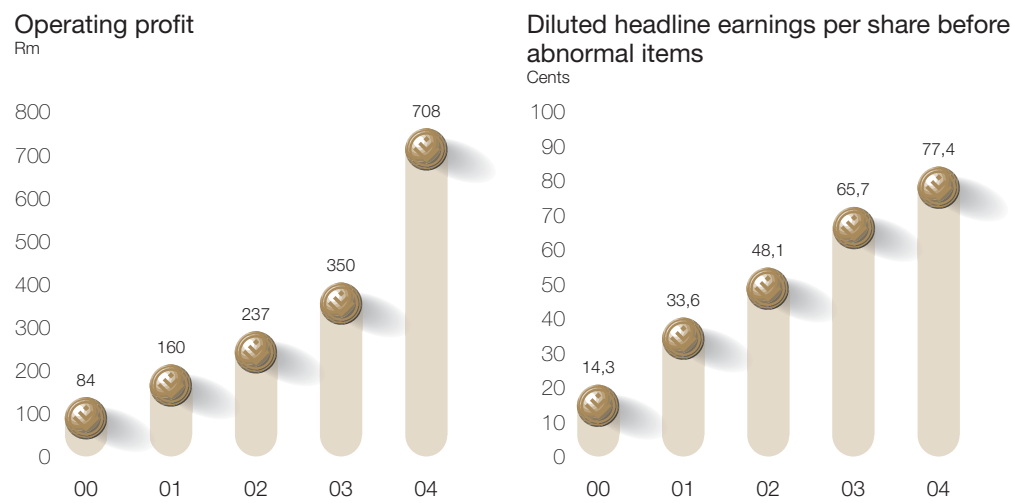
for the year ended 30 June 2004



# Discovery

## Highlights

- Operating profit +102% to R708 million
- New business annualised premium income R3,2 billion
- Discovery Life profit +138%
- Discovery Health profit +40%
- Destiny Health Illinois business turns profitable
- Joint venture with Prudential launched in UK
- Diluted HEPS before abnormal items +18% to 77,4c



## Introduction

Discovery's performance over the year was pleasing. Robust performance, combined with strong organic growth and increased efficiencies across all of Discovery's businesses, resulted in a 102% rise in operating profits. Despite a 29% increase in the weighted number of shares in issue, diluted headline earnings per share before abnormal items increased by 18%.

Discovery's businesses are built on the foundation of innovation and engaging people in the managing of their health in order to achieve better social and financial outcomes. This has enabled Discovery to take a leadership position in the markets wherein it operates by offering life and health insurance products that are competitive, efficient and sustainable. This has led to strong organic growth and a competitive position going forward.

Discovery is evolving into four key insurance businesses, each underpinned by a common philosophy and values set, but each in a different stage of development:

- Discovery Life exceeded expectations, further consolidating its leadership position within the pure risk assurance market, and increasing operating profits by 138%.
- Discovery Health's pleasing performance led to the lowest contribution increase for members of the Discovery Health Medical Scheme ("DHMS") announced for 2005, and an increase in operating profits of 40%.
- In the US, Destiny Health made solid progress, resulting in a decrease in its operating losses by 37%. Its core Illinois business turned profitable during the second six months of the year, while significant progress was made in rolling out its joint ventures with Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts.
- In the UK, Discovery entered into a joint venture with Prudential plc. The new company PruHealth is set to launch within the next few months.

## Discovery Health

Discovery Health's performance over the past year has demonstrated the company's ability to balance and align member and corporate interests. Through the performance of Discovery Health's product structures and sound risk management, the Discovery Health Medical Scheme generated a surplus of R1,52 billion over the financial year, enabling it to make significant progress toward meeting the 31 December 2004 statutory reserve requirements and creating a foundation for lower medical inflation for its members.

Discovery Health and the Discovery Health Medical Scheme recently announced a 5,4% contribution increase for 2005 – significantly lower than previous years, – along with more comprehensive benefits. Also announced was significantly increased remuneration for general practitioners and specialists, an important step toward maintaining and enhancing access to quality health care for its members.

Discovery Health's strong performance is reflected in an increased market share of 22,8% (2003: 20,8%), and a growth in membership to in excess of 1,6 million members. The increased membership and administration efficiencies manifested in a robust financial performance by Discovery Health, with operating profits increasing by 40% to R522 million (2003: R372 million).

## Discovery Life

Discovery Life's performance exceeded expectations. Profits increased by 138% to R271 million (2003: R114 million) and new business annualised premium income increased to R554 million (2003: R423 million), generating significant value. The number of policyholders increased by 91% to 119 884 (2003: 62 914). The company's market share of new business of the entire life assurance market now exceeds 6,1%.

During the year under review, Discovery Life continued to focus on product innovation and the integration with Discovery Health and Vitality. The launch of the PayBack Benefit allows Discovery Health members who are Discovery Life policyholders to receive back a substantial percentage of their life assurance premiums, based on how they manage their health. This and other product structures have enabled Discovery Life to maintain a competitive position within the markets in which it operates.

In just four years since its launch, Discovery Life has achieved a position of leadership in the pure life assurance market. This was reinforced when it was rated top by its peers in a recent industry survey conducted among South Africa's leading insurance companies by PricewaterhouseCoopers Inc.

## Destiny Health

The past year was significant in the evolution of Destiny Health, Discovery's US subsidiary. In February of this year, Destiny Health achieved its goal of break-even for its core Illinois business and made an operating profit of US\$190 000 for the last six months of the year, in this market. In addition, Destiny commenced rolling out its joint ventures with Guardian Life Insurance Company of America and the Tufts Health Plan of Boston, Massachusetts.

Destiny experienced a 66% increase in membership to 36 189 (2003: 21 858) as a result of a 70% increase in new business to US\$73 million (2003: US\$43 million). Operating losses decreased by 37% to R106 million (2003: R169 million), reflecting a combination of membership growth, improved quality of business and focused expense management.

The second half of the year saw Destiny enter new markets with the roll out of its joint ventures with Guardian Life Insurance Company of America in the mid-Atlantic region and Tufts Health Plan of Boston, in Massachusetts. The joint venture with Guardian has already produced pleasing results while the roll out of the Tufts Health Plan venture has been slower than initially anticipated. Going forward, Destiny will aim to leverage the distribution capability and scale of its joint venture partners to grow its membership base.

Destiny Health has continued its focus of moving the significant elements of the back-office functionality into Discovery to achieve the benefits of scale and a lower cost environment. An important by-product of this has been the creation of job opportunities for South Africans of nearly 100 jobs in the past 12 months. It is anticipated that this will continue and grow as the business expands.

## New initiatives: PruHealth and DiscoveryCard

In addition to its established businesses, Discovery continues to invest in new businesses which will drive future growth. Two important new initiatives were announced during the period under review:

- **PruHealth:** Work has been underway on the establishment of PruHealth, a joint venture with the UK's Prudential plc, since early 2003; it will be a key area of focus in the next year as it launches into the UK's private medical insurance market. The PruHealth product range will be built on Discovery's consumer-driven healthcare experience and, as with Destiny Health, the company's administrative and service support functions will reside in South Africa – there are already over 100 full-time PruHealth employees in this regard. PruHealth is progressing ahead of schedule, with the infrastructure approaching operational readiness and the Vitality product offering largely completed, having secured deals with two leading UK gym networks. Approval was recently obtained from the UK's Financial Services Authority, paving the way for the consumer product launch, the next key milestone in PruHealth's development.
- **DiscoveryCard:** The launch of DiscoveryCard drives the pursuit of better health, while providing a platform for growth, integration and differentiation. DiscoveryCard is a "new generation" credit card offering full VISA functionality, automatic savings at a network of leading stores, interest-free finance for healthcare and also operates as a Discovery Health and Vitality membership card. The Card will be available to Discovery members from late October.

## Future prospects

The capital raised in 2003 through a claw-back offer to shareholders provides sufficient capital to fund Discovery's current growth aspirations. The strong operating performances, increased efficiencies achieved across all the businesses and new initiatives position the company well for future growth.

By order of the board

**LL Dippenaar**  
Chairman

**A Gore**  
Chief Executive Officer

26 August 2004

### Directors

LL Dippenaar (Chairman), A Gore (Chief Executive Officer), JM Robertson (Chief Operating Officer), Dr BA Brink\*\*, JP Burger, Dr NJ Dlamini, RB Gouws#, MI Hilikowitz, NS Koopowitz\*, HP Mayers\*, B Swartzberg\*, SV Zilwa, SD Whyte\*

### Transfer secretaries

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Discovery Holdings Limited  
(Registration number 1999/007789/06)  
Share code: DSY ISIN code: ZAE000022331

## Statement of gross inflows under management for the year ended 30 June 2004

R million	Group 2004	Group 2003
Gross inflows under management	14 345	10 946
Less: Collected on behalf of third parties	10 647	7 190
Gross income of group	3 698	3 756

## Income statement for the year ended 30 June 2004

R million	Group 2004	Group 2003
Gross income of group	3 698	3 756
Outward reinsurance premiums	(293)	(342)
<b>Net income</b>	<b>3 405</b>	<b>3 414</b>
Policyholder benefits	(1 078)	(1 646)
Recoveries from reinsurers	237	280
<b>Net policyholder benefits</b>	<b>(841)</b>	<b>(1 366)</b>
Commissions	(576)	(438)
Operating and administration expenses	(1 495)	(1 437)
Vitality benefits	(314)	(227)
Transfer from assets/liabilities arising from insurance contracts	529	404
<b>Profit from operations</b>	<b>708</b>	<b>350</b>
Local operations	842	519
Foreign operations	(134)	(169)
Investment income	124	123
Realised and unrealised investment gains and losses	68	(77)
Fair value adjustment to liabilities arising from investment contracts	(71)	64
Financing costs	(47)	(25)
Foreign exchange loss – unrealised	(62)	(17)
<b>Profit before abnormal items and taxation</b>	<b>720</b>	<b>418</b>
Abnormal items	-	120
<b>Profit before taxation</b>	<b>720</b>	<b>538</b>
Taxation	(299)	(182)
- Operating profit	(299)	(146)
- Abnormal items	-	(36)
<b>Profit after taxation</b>	<b>421</b>	<b>356</b>
Minority share of loss	(3)	6
<b>Net profit attributable to ordinary shareholders</b>	<b>418</b>	<b>362</b>
Basic earnings per share before abnormal items (cents)		
- undiluted	83,0	71,0
- diluted	79,7	67,3
Basic earnings per share (cents)		
- undiluted	83,0	92,5
- diluted	79,7	86,8
Headline earnings per share before abnormal items (cents)		
- undiluted	80,5	69,3
- diluted	77,4	65,7
Headline earnings per share (cents)		
- undiluted	80,5	90,8
- diluted	77,4	85,2
Weighted number of shares in issue (000's)	504 051	391 714
Diluted weighted number of shares (000's)	536 025	432 123

## Balance sheet at 30 June 2004

R million	Group 2004	Group 2003
<b>ASSETS</b>		
Cash and cash equivalents	998	1 469
Government and public authority stocks		
- available-for-sale	130	54
- at fair value through profit and loss	52	54
Equity investments		
- available-for-sale	602	217
- at fair value through profit and loss	251	224
Investment in associate	2	4
Investment assets	2 035	2 022
Loans and receivables	430	291
Deferred taxation	10	7
Assets arising from insurance contracts	1 318	772
Intangible assets	201	36
Equipment	38	221
<b>Total assets</b>	<b>4 032</b>	<b>3 349</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>		
<b>LIABILITIES</b>		
Current liabilities	578	547
Provisions	22	16
Taxation	43	44
Deferred taxation	128	26
Liabilities arising from insurance contracts	6	9
Liabilities arising from reinsurance contracts	36	16
Financial liabilities	716	1 527
- Investment contracts at fair value through profit and loss	400	370
- Borrowings at amortised cost	316	1 157
<b>Total liabilities</b>	<b>1 529</b>	<b>2 185</b>
Outside shareholders' interest	67	67
<b>SHAREHOLDERS' FUNDS</b>		
Share capital and share premium	1 276	668
Reserves	1 160	688
<b>Total shareholders' funds</b>	<b>2 436</b>	<b>1 097</b>
<b>Total liabilities and shareholders' funds</b>	<b>4 032</b>	<b>3 349</b>

