Audited financial results

for the year ended 30 June 2004



Operating profit Diluted headline earnings per share before abnormal items 100 700 600 400 50 40 300 30 200 20

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 breakeven 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

A Gore Chief Executive Officer

Chairman 26 August 2004

*Executive

LL Dippenaar (Chairman), A Gore (Chief Executive Officer), JM Robertson (Chief Operating Officer), Dr BA Brink**, JP Burger, Dr NJ Dlamini, RB Gouws#, MI Hilkowitz, NS Koopowitz*, HP Mayers*, B Swartzberg*, SV Zilwa, SD Whyte* **Appointed 19 February 2004 #Resigned effective 5 December 2003

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited (Registration number 2004/003647/07) Ground Floor, 70 Marshall Street, Johannesburg, 2000 PO Box 61051, Marshalltown, 2107

Secretary and registered office

MJ Botha

155 West Street, Sandton 2146 PO Box 786722, Sandton, 2146 Tel: (011) 529 2888 Fax: (011) 529 2958 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 Less: Collected on behalf of third parties	14 345 10 647	10 946 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 Outward reinsurance premiums	3 698 (293)	3 756 (342)
Net income	3 405	3 414
Policyholder benefits Recoveries from reinsurers	(1 078) 237	(1 646) 280
Net policyholder benefits	(841)	(1 366)
Commissions Operating and administration expenses Vitality benefits Transfer from assets/liabilities arising from insurance contracts	(576) (1 495) (314) 529	(438) (1 437) (227) 404
Profit from operations	708	350
Local operations Foreign operations	842 (134)	519 (169)
Investment income Realised and unrealised investment gains and losses Fair value adjustment to liabilities arising from investment contracts Financing costs Foreign exchange loss – unrealised	124 68 (71) (47) (62)	123 (77) 64 (25) (17)
Profit before abnormal items and taxation Abnormal items	720 -	418 120
Profit before taxation Taxation	720 (299)	538 (182)
Operating profitAbnormal items	(299)	(146) (36)
Profit after taxation Minority share of loss	421 (3)	356 6
Net profit attributable to ordinary shareholders	418	362
Basic earnings per share before abnormal items (cents) undiluted diluted Basic earnings per share (cents)	83,0 79,7	71,0 67,3
- undiluted - diluted - diluted Headline earnings per share before abnormal items (cents)	83,0 79,7	92,5 86,8
- undiluted - diluted Headline earnings per share (cents)	80,5 77,4	69,3 65,7
 undiluted diluted Weighted number of shares in issue (000's) Diluted weighted number of shares (000's) 	80,5 77,4 504 051 536 025	90,8 85,2 391 714 432 123

Balance sheet at 30 June 2004

R million	Group 2004	Group 2003
ASSETS Cash and cash equivalents Government and public authority stocks	998	1 469
 available-for-sale at fair value through profit and loss Equity investments 	130 52	54 54
 available-for-sale at fair value through profit and loss Investment in associate 	602 251 2	217 224 4
Investment assets Loans and receivables Deferred taxation Assets arising from insurance contracts Intangible assets Equipment	2 035 430 10 1 318 38 201	2 022 291 7 772 36 221
Total assets	4 032	3 349
LIABILITIES AND SHAREHOLDERS' FUNDS		
LIABILITIES Current liabilities Provisions Taxation Deferred taxation Liabilities arising from insurance contracts Liabilities arising from reinsurance contracts Financial liabilities	578 22 43 128 6 36 716	547 16 44 26 9 16 1 527
 Investment contracts at fair value through profit and loss Borrowings at amortised cost 	400 316	370 1 157
Total liabilities	1 529	2 185
Outside shareholders' interest	67	67
SHAREHOLDERS' FUNDS Share capital and share premium Reserves	1 276 1 160	429 668
Total shareholders' funds	2 436	1 097
Total liabilities and shareholders' funds	4 032	3 349

(451)

(20)

998

1 025

1 469

458

(14)

Net (decrease)/increase in cash and cash equivalents

Effects of exchange rate changes on cash and cash equivalents

Cash and cash equivalents at beginning of year

Cash and cash equivalents at end of year

Statement of changes in equity for the year ended 30 June 2004

	Share	Share	Invest- ment	Retained	Trans- lation	Hedging	
R million	capital	premium	reserve	earnings	reserve	reserve	Total
30 June 2003							
Balance at 1 July 2002	1	426	31	301	(15)	-	744
Implementation of AC133	_	_	_	(17)		_	(17)
Net profit for the period	_	_	_	362	_	_	362
Dividends paid to Destiny Health							
preference shareholders	-	-	-	(12)	-	-	(12)
Unrealised loss on investments	_	_	(28)	_	_	_	(28)
Realised gains on investments							
transferred to income statement	-	-	(7)	-	-	-	(7)
Revaluation of forward exchange							
contract	-	-	-	-	-	(14)	(14)
Translation of foreign subsidiary	-	-	-	-	67	-	67
Issue of capital	*	2	-	-	-	-	2
Balance at 30 June 2003	1	428	(4)	634	52	(14)	1 097
30 June 2004							
Balance at 1 July 2003	1	428	(4)	634	52	(14)	1 097
Issue of capital	*	877	-	-	-	-	877
Share issue expenses	-	(30)	-	-	-	-	(30)
Net profit for the period	-	-	-	418	-	-	418
Dividends paid to Destiny Health				41			(4)
preference shareholders Realised loss on minority	_	-	-	(1)	-	-	(1)
share buy-back	_	_	_	(5)		_	(5)
Unrealised gains on investments	_		69	(3)	_	_	69
Realised gains on investments	_	_	03	_	_	_	03
transferred to income statement	_	_	(14)	_	_	_	(14)
Revaluation of forward	_	_	(1-7)	_	_	_	(17)
exchange contract	_	_	_	_	_	8	8
Translation of foreign subsidiary	_	_	-	_	17	_	17
Balance at 30 June 2004	1	1 275	51	1 046	69	(6)	2 436

* Amount is less than R500 000

Cash flow from financing

New business annualised

activities

30 June 2003

Segmental information

for the year ended 30 June 2004 Health United South States of United Life Vitality Holdings R million Africa America Kinadom Total 30 June 2004 New business annualised 3 232 premium income 2 122 494 554 Gross inflows under management 534 858 403 14 345 12 550 Income statement 380 858 403 3 698 Gross income 2 057 (158)Reinsurance (293)Net policyholder benefits (476) (168)(197)(841) (39) (27)Commissions (510)(576)Operating and administration (1) (1014)(189)(28)(251)(326)(1 809) Transfer from assets/liabilities 431 431 under insurance contracts (106)(28)173 50 (1) 610 Return on assets under insurance contracts 98 98 Profit from operations 271 50 708 522 (106)(28)(1) Investment income and realised profits 121 Financing costs (47)Foreign exchange loss - unrealised (62)Profit before abnormal items 720 and taxation Cash flow statement Cash generated by operations (248)62 337 655 (103)(28)(1)

premium income 378 423 3 148 Gross inflows under management 428 476 310 10 946 9 732 Income statement 476 2 638 332 310 3 756 Gross income (133)(119)(342)Reinsurance (90)Net policyholder benefits (1 115) (149)(102) $(1\ 366)$ (17)Commissions (31)(390)(438)Operating and administration (260)(1 664) expenses (1018)(202)(184)Transfer from assets/liabilities 346 346 under insurance contracts (169)33 292 372 56 Return on assets under insurance contracts 58 58 Profit from operations 372 (169)114 33 350 Investment income and realised profits 110 Financing costs Foreign exchange loss – unrealised (17)

(12)

(27)

(39)

418

143

1 017

Financial commentary

Profit before abnormal items

Cash generated by operations

Cash flow from financing activities

and taxation

Cash flow statement

Review of group results The following table shows the main components of the increase in group profit from operations for the year:

(84)

139

(266)

40

878

453

Earnings source	June 2004	June 2003	%
	R million	R million	Change
SA Health operations Vitality operations Life operations Destiny operations UK set-up costs Holdings	522	372	40
	50	33	52
	271	114	138
	(106)	(169)	(37)
	(28)	-	-
	(1)	-	-
Group operating profit	708	350	102

The Discovery group continued to produce strong, consistent earnings growth. Headline earnings before abnormal items increased by 49% to R405 million for the year ended 30 June 2004. 134 615 385 additional shares were issued on 28 July 2003 raising R875 million in capital. These additional shares resulted in an increase in the weighted average number of shares in issue of 29%. Of the capital raised, R300 million was invested in equity investments. Unrealised gains on available-for-sale investments of R55 million for the year have been taken directly to reserves and are not included

In the year to 30 June 2004, the group incurred a foreign exchange loss of R62 million on the Rand denominated borrowings made by Destiny Health. This loss was caused by the exceptional strengthening of the Rand against the Dollar from R7.56/US\$1 to R6,18/US\$1 over the twelve month period. The group has benefited from the stronger Rand in the translation of Destiny's losses.

In the last six months of the financial year, the group incurred approximately R28 million of costs towards the establishment of its joint venture with Prudential plc to provide health insurance in the United Kingdom. Even though we are confident that this investment will yield a return in excess of these costs once operational, the group has continued

to adopt the policy of expensing set-up costs of new operations. Gross inflows under management, which in our belief is the most appropriate measure of our level of operations, has

shown a five year compound growth of 46% per annum. This is pleasingly driven by growth in all business areas



Group embedded value at 30 June 2004

R million	Group 2004	Group 2003	% change	Group 2003 ⁽¹⁾	
Shareholders' funds [@] Value of in-force business before cost of capital Cost of capital	2 436 4 803 (363)	1 097 4 021 (190)	19	(Illustrative, after capital raising) 1 944 4 021 (190)	
Discovery Holdings embedded value	6 876	4 928	40	5 775	
Number of shares (millions) Embedded value per share Diluted embedded value per share	513,3 R13,40 R12,89	377,9 R13,04 R12,20	3 6	513,3 R11,25 R10,76	

In June 2003, Discovery proceeded with a claw-back offer to raise R875 million at an issue price of R6.50 per share. The shares were issued and listed on the JSE on 28 July 2003, 4t 30 June 2003, the capital raised was reflected as a short-term loan owing to FirstRand Limited, but is now included in shareholders' funds. The embedded value at 30 June 2003 has been restated for illustrative purposes to demonstrate the impact of including the capital raised (net of preliminary and share issue expenses) in shareholders' funds, and including the shares issued in the calculation of embedded value per share. Outside shareholders' interest in Destiny Health consisting of preference shares, were converted at R14/US\$1 in the prior year and not at historical rates of R7/US\$1 in accordance with the group's accounting policy. Comparative figures have therefore be estated to record the preference shares at historical rates. The effect of this restatement is to increase the currency translation reserve by R60 million and reduce outside shareholders' interest by R60 million.

Value of in-force business at 30 June 2004

before cost of capital	Cost of capital	Value after cost of capital
3 194 1 447 162	(340) (23)	3 194 1 107 139
4 803	(363)	4 440
	of capital 3 194 1 447 162 4 803	before cost of capital of capital 3 194 -(1) (340) 162 (23)

(1) With effect from 1 January 2004, no allowance has been made for the inclusion in the Health value of in-force of any reinsurance contracts and the cost of capital associated with such contracts.
(2) Figures for Destiny Health reflect Discovery's 98,1% shareholding in Destiny Health at 30 June 2004.

Value of in-force business at 30 June 2003

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality Life Destiny Health	3 007 901 113	(17) (145) (28)	2 990 756 85
Total	4 021	(190)	3 831

Embedded value earnings for the year ended 30 June 2004

R million	2004	2003
Embedded value at end of period Embedded value at beginning of period	6 876 4 928	4 928 3 321
Increase in embedded value Net issue of capital Dividends paid to Destiny Health preference shareholders Implementation of new accounting standards Revaluation of forward exchange contract (1)	1 948 (847) 1 - (8)	1 607 (2) 12 17 14
Embedded value earnings	1 094	1 648
40 TO 10 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	and the second second	

(1) This adjustment relates to cash flow hedges taken out to reduce exposure to currency risk on capital inflows to Destiny Health in July 2003 and capital inflows to Prudential Health in September 2004.

Components of embedded value earnings for the year ended 30 June 2004

R million	Group 2004	Group 2003	% change
Total profit from new business (at point of sale) Profit from existing business * Expected return * Change in methodology and assumptions (1) * Experience variances Adjustment for minority interest in Destiny Health Adjustment for Guardian profit share in Destiny Health (2) Foreign exchange rate movements (8) Interest on loan capital Return on shareholders' funds (4)	534 (361) 197 (4) (8) (67) (41) 207	500 (0) 380 (2) - 45 - 55	(5)
Embedded value earnings	1 094	1 648	
(1) The change in methodology and assumptions item will vary over time to			

and economic environment. The current year's changes are described in detail in the table below (for previous periods refer to previous embedded value statements).

(2) In terms of the agreement between Destiny Health and the Guardian Life Insurance Company of America, Guardian will share in 50% of the profits from Destiny's pre-alliance business once the business written by Guardian reaches 23 500 beneficiaries. It is expected that this will occur in June 2007. Based on Guardian's progress at 30 June 2004 towards achieving this target, the value attributed to Destiny's pre-alliance business from 30 June 2007 has been reduced by 6,8% in the embedded value calculation.

(3) The impact of foreign exchange rate movements was previously shown as an experience variance. The item includes a R62 million unrealised foreign exchange loss during 2004, arising on a R27 million loan entered into by Destiny Health with RMB International (Dubin) Limited.

(4) Return on shareholders' funds is the investment return on shareholders' funds after tax and management charges. Shareholders' funds include the life product's

Methodology and assumption changes for the year ended 30 June 2004

R million	Health and Vitality	Destiny Health	Life	Total
Modelling changes (1) Premium escalations Lapses Risk discount rate Economic assumptions Expenses Mortality and morbidity Ancillary services fee (2) Margins Tax (3) Other	(109) - 51 98 - (10) - (144) - (53) 2	(14) 3 (24) - 7 27 9 - - - (20)	(104) (26) (73) - (13) (36) 120 - (52)	(227) (23) (46) 98 (6) (19) 129 (144) (52) (53) (18)
Total	(165)	(12)	(184)	(361)

(1) The Health and Vitality modelling change relates to a refinement of the model used to value the Discovery In-house (Custom) schemes. The Life modelling changes consist mainly of an increase in the cost of capital of R74 million due to changes in the method of projecting the Capital Adequacy Requirement or

changes consist mainly of an increase in the cost or capital or n./ 4 Illimitor due to drainged in the lifetime of the portfolio.

Members of Discovery Health Medical Scheme will not be charged an ancillary services fee with effect from 1 January 2005.

Experience variances for the year ended 30 June 2004

R million	Health and Vitality	Destiny Health	Life	Prudential Health	Total
Renewal expenses	(14)	(9)	(6)	_	(29)
Joint venture expenses	` _′	(35)	'	(28)	(63)
Administration fee increase	(21)	` _′	-	`	(21)
Extended modelling term (1)	133	11	2	_	146
Lapses	94	(24)	(53)	_	17
Contribution increase	1	`(7)	`23´	_	17
Policy alterations	24	(2)	100	_	122
Mortality and morbidity	_	(12)	26	_	14
Health quota share reinsurance (2)	5	` _′	(13)	_	(8)
Life reinsurance (3)	_	_	` i'	_	Ϋ́
Other	17	(4)	(12)	-	1
Total	239	(82)	68	(28)	197

alth, Vitality, Destiny Health and Group Life at 30 June 2004 has not been changed from that used at 30 June 2003. Thus, an experience

The projection retirrior relating vitality, Destrip retail and ording the at 30 June 2004. Thus, an experience variance arises because the total term of the in-force business is effectively increased by 12 months modelled in the 30 June 2004 calculation. The Life product cost of capital has increased due to the manner in which the cost of capital was previously shared between the Life and Health products.
 During the past financial year, Discovery Life entered into reinsurance agreements to protect against future lapses. The effect of these agreements is included in the reinsurance variance. With effect from 1 July 2004 a quota share agreement was entered into, effectively reinsuring 50% of the risk profits on certain classes of business in-force as at 31 December 2003 for a fixed period of approximately six years. Discovery Life earned R200 million in terms of this contract in July

2004. The terms of the quota share agreement are such that the agreement will have a negligible impact on the embedded value and was not included in th mbedded value at 30 June 2004

Embedded value of new business for the year ended 30 June 2004

R million	Group 2004	Group 2003	% change
Health and Vitality Gross profit from new business at point of sale Cost of capital	155 -	238 (3)	
Net profit from new business at point of sale New business annualised premium income (1)	155 1 259	235 1 834	(34) (31)
Life Gross profit from new business at point of sale Cost of capital	583 (131)	494 (76)	
Net profit from new business at point of sale New business annualised premium income ²⁰ Annualised profit margin ⁽³⁾ (%)	452 406 13,3	418 355 13,1	8 14
Destiny Health Gross profit from new business at point of sale Cost of capital	36 (6)	41 (24)	
Net profit from new business at point of sale New business annualised premium income (9) New business annualised premium income (US\$ million)	30 378 56	17 356 40	76 6 40

Headline earnings

Headline earnings is calculated as follows:		
R million	June 2004	June 2003
Net profit attributable to ordinary shareholders Adjusted for realised profit on available-for-sale financial instruments	418 (13)	362 (7)
Headline earnings Abnormal items	405	355 (84)
Headline earnings before abnormal items	405	271

Balance sheet

The short-term loan of R875 million owing to FirstRand Limited as at 30 June 2003 that arose in terms of the claw-back offer was repaid by the issue of 134 615 385 new Discovery shares. These shares were listed on the JSE on 28 July 2003. The minority interest of R67 million in the balance sheet comprises the Series A preference shares of Destiny Healtl The increase in the assets under insurance contracts of R546 million is as a result of the significant increase in profitable

new business written by Discovery Life. Investments have increased due to the investment of an additional R300 million into equity portfolios during October

2003 coupled with the strong performance of the equity markets.

Accounting policies The accounting policies applied are in accordance with South African Statements of Generally Accepted Accounting

Practice. These accounting policies are consistent with those of the prior year.

Share based payments

The new accounting statement AC139 on Share based payments (equivalent to IFRS 2) was issued in June 2004. This statement is effective for all financial years commencing after 1 January 2005. The transitional provisions of this statement require that an expense is raised for all share based payments and options issued after 7 November 2002

If this statement had been applied to all share based payments from 1993, the following amounts would have been expensed in the income statement of the group

(1) Health new business annualised premium income is the gross medical scheme contribution. For embedded value purposes, Health new business is defined as reaum new business annualised premium income is the gross medical sclerine contribution. For embedded value purposes, reaum new business a defined as members of new employer groups, and includes additions to first year business.

The new business annualised premium income shown above has been adjusted to exclude 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 2004 – outside of the valuation period. The total Health and Vitality new business annualised premium income written over the period was R2 184 million (June 2003: R2 347 million).

Members joining existing employer groups have added R226 million to the Health product value of in-force over the past year. This is shown as part of the lapse experience variance.

(2) Life new business annualised premium income of R406 million shown above is net of 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 R80 million and servicing increases of R80 million, was R554 million. an including an indicates of non-inimina, was not non-iniminal.

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

under the Life product have accelerated premiums, i.e. premiums that increase over the term of the policies, hence expressing the value of new business as a percentage of the current new business premium, 111,4% (June 2003: 117,9%), would overstate the annualised profit margin.

For embedded value purposes, Destiny Health new business is defined as members of new employer groups, and includes additions to first year business. The new business annualised premium income shown above has been adjusted to exclude 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 2004 – outside of the valuation period. The total Destiny Health new business annualised premium income written over the period was R494 million (June 2003: R378 million).

Embedded value assumptions

out below. These assumptions represent a best estimate view of the future:

 It is assumed that the South African capital adequacy requirements in future years will be backed by surplus assets consisting of 70% equities and 30% fixed interest securities for the purposes of calculating the cost of capital at risk.

Allowance has been made for tax and investment expenses in the calculation of the cost of capital. The investment return assumption was determined with reference to the cashflow-weighted average risk free yield curve. Other economic assumptions were set relative to this yield.

The current policy of Discovery is not to declare dividends and therefore no allowance has been made for secondary

Health and Vitality

The embedded value term has been set at ten years for Health and Vitality.

- The Health administration and managed care fees are assumed to increase at the expense inflation rate for the full
- projection term. Lapse assumptions are based on the results of recent experience investigations. Negative turnover on employer

The embedded value projection term for group business has been set at ten years.

The embedded value projection term has been set at ten years.

be payable over the projection term. The morbidity assumptions are based on the results of recent experience investigations.

regarding scheme renewals. The lapse rates assumed depend on the member's underwriting cohort.

R6.18/US\$1

%	2004	2003
Risk discount rate - Health and Vitality - Life product - Destiny Health	12,5 12,5 10,0	13,5 12,5 10,0
Medical inflation South Africa United States	8,5 Current levels reducing to 12,5% over the projection period	8,5 Current levels reducing to 11,5% over the projection period
Expense inflation South Africa United States	5,5 5,0	5,5 6,0
Pre-tax investment return South Africa - Cash - Bonds - Equity United States - Bonds	8,0 9,5 11,5 2,0	8,0 9,5 11,5 2,0
Income tax rate - South Africa - United States Federal Tax Rate (1)	30,0 34,0	30,0 34,0

(1) Various additional State taxes also apply

Sensitivity to the embedded value assumptions

In order to illustrate the effect of using different assumptions, the sensitivity of the embedded value at 30 June 2004 to changes in the key 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.

Embedded value sensitivities

	Share-	Health a	nd Vitality	Destiny	/ Health	Li	fe	Embedded	%
R million	holders' funds	Value of in-force	Cost of capital	Value of in-force	Cost of capital	Value of in-force	Cost of capital	value	Change
Base Impact of: Risk discount rate	2 436	3 194	-	162	(23)	1 447	(340)	6 876	
+ 1% Risk discount rate	2 436	3 083	-	154	(25)	1 337	(407)	6 578	(4)
1%Lapses + 10%Renewal expenses	2 436 2 436	3 313 3 125	- -	170 152	(21) (22)	1 577 1 337	(262) (317)	7 213 6 711	5 (2)
+ 10% Life mortality and	2 436	2 776	-	119	(23)	1 419	(339)	6 388	(7)
morbidity + 10% Health, Vitality and Destiny Health:	2 436	3 194	-	162	(23)	1 161	(338)	6 592	(4)
Term + 1 year Investment return	2 436	3 346	_	178	(25)	1 447	(340)	7 042	2
- 1% ⁽¹⁾	2 436	3 193	-	161	(26)	1 403	(339)	6 828	(1)

(1) For the Life Product, both investment return and inflation assumptions were reduced by 1%

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

Value of new business sensitivities

	Health and Vitality		Destiny Health		Life		Value of	%
R million	Value of in-force	Cost of capital	Value of in-force	Cost of capital	Value of in-force	Cost of capital	new business	Change
Base Impact of:	155	-	36	(6)	583	(131)	637	
Risk discount rate + 1%	145	_	32	(7)	540	(157)	553	(13
Risk discount rate – 1%	166	_	41	(6)	634	(101)	734	15
Lapses + 10%	148	-	31	(6)	531	(122)	582	(9
Renewal expenses + 10% Life mortality and	112	-	9	(6)	572	(131)	556	(13
morbidity + 10% Health, Vitality and Destiny Health:	155	-	36	(6)	490	(130)	545	(14
Term + 1 year	167	-	45	(7)	583	(131)	657	3
Investment return – 1% (1)	155	-	36	(7)	578	(131)	631	(1
Acquisition expenses + 10%	141	-	30	(6)	563	(131)	597	(6

(1) For the Life product, both investment return and inflation assumptions were reduced by 1%

The embedded value of Discovery at 30 June 2004 is calculated as the sum of the following components:

The excess assets over liabilities at the valuation date, and

The value of in-force business at the valuation date (less an allowance for the cost of capital). The value of in-force business is calculated as the value of projected future after-tax profits of the business in force at

written by Discovery, discounted at the risk discount rate, less an allowance for the cost of capital.

the valuation date, discounted at the risk discount rate. The value of new business is determined at the point of sale as the projected future after-tax profits of the new business

The cost of capital in respect of the in-force business is calculated to equal the amount of solvency capital at the valuation date, less the discounted value, using the discount rate, of the expected annual release of these reserves over the projection term, allowing for the return after tax and charges on the expected level of solvency capital.

PricewaterhouseCoopers Inc. has reviewed the calculation of the value of in-force business, the value of new business, including the methodology and assumptions underlying these calculations. PricewaterhouseCoopers Inc. has reported that the accompanying embedded value and disclosure complies in all material respects with the actuarial principles as set out in Professional Guidance Note 107 of the Actuarial Society of South Africa. A letter from PricewaterhouseCoopers Inc., summarising the results of their review, is included in the annual report.

QED Actuaries and Consultants (Pty) Limited ("QED") have been involved in both certifying the assumptions, methodology and the actuarial valuation of the life business in the Statement of actuarial values of assets and liabilities and in jointly reviewing the group consolidated embedded value. QED have reviewed the value of in-force business, the value of new business and the analysis of the embedded value earnings. This included a review of the methodology and assumptions underlying the calculation of the embedded value. A letter from QED summarising the results of the review is included in

the annual report. In the letter QED confirms that in their view, the embedded value and disclosure complies in all material aspects with Professional Guidance Note 107 of the Actuarial Society of South Africa.

R million Total Year ended 30 June 2004 42 Year ended 30 June 2003 1993 to 30 June 2002 47 130 The Discovery Life preference shares would be treated as a share based payment in terms of AC139 and have been

Only Destiny Health has issued options subsequent to 20 November 2002. Upon future application of the statement only

to these options, less than R1 million will be expensed in respect of the years ended 30 June 2004 and 2003.

Discovery Life preference shares The first tranche of Discovery Life preference shares was redeemable on 30 June 2004. By agreement with the preference shareholders, these will be redeemed on 31 August 2004. A separate announcement has been issued in this regard.

Dividend policy

registered office.

As Discovery is in a growth phase of its operations, the directors have recommended that no dividend be paid at

this time. The auditors, PricewaterhouseCoopers Inc., have issued their opinion on the group financial statements for the year ended 30 June 2004. A copy of the auditors' unqualified report is available for inspection at the company's





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The principal assumptions used in the calculation of the value of in-force business and the value of new business are set

groups is not modelled as lapses. Renewal expense assumptions have been based on the results of the latest expense and budget information.

· Mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

· Renewal expense assumptions have been based on the results of the latest expense and budget information.

Destiny Health

· Based on the projected utilisation of Destiny Health's assessed tax loss to date, it is assumed that no income tax will The lapse assumptions are based on the results of recent experience investigations as well as future expectations

Renewal expense assumptions have been based on the results of the latest expense and budget information.

The value of in-force business for Destiny Health was converted into Rands using the year-end exchange rate of

Embedded value assumptions at 30 June 2004