



Audited results for the year ended
30 June 2008

RESULTS AND COMMENTARY

Financial highlights

Operating profit from established businesses **+39%** to **R1 763 million**

Two new substantial businesses launched, Discovery Invest and PruProtect

New business API excluding Destiny **+18%** to **R4 799 million**

Net profit before tax **+14%** to **R1 664 million**

Diluted embedded value per share **+15%** to **R29.61**

Final dividend of **23 cents per share**

Introduction

The year under review has been important and successful. Discovery's core purpose of "making people healthier and enhancing and protecting their lives" has manifested in a consumer-engaged approach to life and health insurance and financial services, which has created significant competitive advantage, enabling strong organic growth across its businesses and a wide range of opportunities for the future. Discovery's established businesses have performed particularly well, despite a challenging economic environment. In addition, during the year under review, Discovery launched two substantial businesses, Discovery Invest and PruProtect (the UK life insurance joint venture with the Prudential plc), and commenced the wind-down of Destiny Health, its US health insurance subsidiary.

Operating profits of established businesses – Discovery Health, Discovery Life, Vitality and PruHealth – increased by 39% to R1.8 billion. After the costs of launching Discovery Invest and PruProtect, and the wind-down costs of Destiny Health, operating profits increased by 13% to R1.3 billion.

Annual recurring new business increased by 18% to R4.8 billion (excluding Destiny Health).

The embedded value grew by 16% to R16.4 billion (despite an increase in the risk discount rate of 2.25% due to increasing interest rates). The quality of the businesses is clearly illustrated by positive experience variances of R728 million that arose during the year under review – a clear indication of performance exceeding expectation.

Established businesses

Discovery Health

Discovery Health's performance over the period surpassed expectation. Given its size, social importance, and the complexity of the environment in which it operates, the expectations for Discovery Health are based on an approach that demands excellence in every aspect of its business. The performance during the year across every key performance measure exceeded expectation, and placed Discovery Health in a uniquely strong position in its chosen market.

Operating profit grew by 21% to R891 million – membership grew by 3.2% from 896 143 families to 924 725 families – the lapse rate, despite difficult economic conditions remained stable at 4% and efficiencies increased dramatically with the staff headcount per 1 000 lives covered, decreasing by 9%. The level of solvency capital within the Discovery Health Medical Scheme increased in line with the stated targets crossing the R5 billion level as at 30 June 2008, and the scheme is on target to achieve the 25% level by December 2008.

Healthcare environments are typically characterised by regulation and policy debate and, during the year under review, a considerable number of significant policy issues emerged. Included in this is the potential regulation of hospital costs and doctor tariffs, the ongoing technical considerations around the implementation of the risk-equalisation fund for medical schemes and changes to medical scheme benefit structures. In particular, the

National Health Amendment Bill and the Medical Schemes Amendment Bill reflect these policy considerations. Also, the ANC's Polokwane Conference in October 2007 placed the concept of a National Health Insurance system firmly on the agenda.

While the scale and breadth of these issues invariably stimulate policy debate, Discovery Health is of the view that the policy debates will manifest in an acceptable regulatory and policy framework. It expects the emerging environment to provide fertile ground for increased cooperation between the public and private components of the healthcare system, and to see private healthcare continue to play an integral role within the healthcare landscape. Discovery Health firmly remains of the view that the private healthcare sector's role is a pivotal one in the future of SA, and attention must not be diverted from ensuring its excellence and sustainability. Discovery Health is a central role-player in these discussions and is committed to using its scale, expertise and data to play a meaningful and constructive role in these debates.

Discovery Health is cognisant that its real challenge is to ensure that its members have access to the best quality healthcare, at an affordable price and, to this end, a substantial investment was made – and continues to be made – into actuarial, clinical and technological skills and infrastructure. The performance of the Discovery Health Medical Scheme is testimony to this, with the scheme generating a surplus of R1 146 million for its 2007 calendar year. In addition, Vitality has had a significant impact on ensuring demographic balance and controlled lapse rates, both of which are pivotal to sustainability.

A notable feature of Discovery Health's performance during the year has been a considerable gain in operating efficiencies. This has been achieved through a combination of scale and the use of technology without compromising service levels – which, in fact, have been at their highest levels in the company's history. These efficiencies have been passed on to members through lower administration fees. Administration fees have been increased over the last five years by only 2.3% per annum, 4.0% less than CPI over the period. Discovery Health is particularly well placed for the year ahead.

Discovery Life

Discovery Life's performance exceeded expectations. Despite the difficult economic climate – which negatively impacts on life assurance – the company's performance across virtually all aspects of its business was exceptional: new business performance exceeded target; the distribution channels performed well with the recently established tied agency force producing significant new business, and the quality of the business transacted was pleasing. In addition, Discovery Life rolled out a number of important innovations within its core product range. The only area wherein the environment impacted somewhat negatively, was the lapse rate, which moved upwards, but not significantly above expectation.

Operating profit grew by 38% to R978 million, new business (including Discovery Invest) grew by 45% to R1.4 billion and the value of in-force business grew by 22% to R7.3 billion.

It is estimated that Discovery Life transacted more new risk business over the period than any of its competitors. From a quality perspective, the company managed to achieve positive experience variances over the year, reflecting a performance that exceeded expectations – expectations which were set prior to the emerging economic climate. In addition to this, the rate of take-up of ancillary benefits – an important barometer of product acceptability and key driver of profitability – has increased compared with the corresponding period last year. While the lapse rate did increase, Discovery Life's integration strategy, which integrates Vitality and creates dynamic premium pricing, ensured that its products are more persistent and is proving to be an essential immunising strategy against economic downturns.

A notable feature during the year has been the performance of Discovery Life's distribution strategy. Discovery Life's performance during the year under review can largely be attributed to the success of Discovery's growing tied agency force as a means of product distribution in addition to the 6 961 financial advisers who actively support Discovery Life. The agency force, Discovery Financial Consultants (DFC), has been developed based on the hypothesis that given the quality of products available across Discovery, the group would be able to attract and retain the best tied agents. During the year the number of agents grew by 289% to 144, and the average new business produced by agents increased to R136 747 per month – estimated to be around eight times the industry average. In addition to the substantial business generated throughout the year, it is expected that DFC will play a central role in the group's growth going forward.

Toward the end of the period under review, Discovery Life launched a range of important innovations. The Cover Integrator, which reduces the cost of life cover, and the LifeTime Impact approach to severe illness and disability benefits, which flexes benefit payouts based on policyholders' personal requirements, are expected to further entrench Discovery Life's leadership position. Accelerating new business production post the reporting period reflects the acceptance of the approach.

Discovery Life is positioned particularly well for the year ahead.

PruHealth

PruHealth, Discovery's UK health insurance joint venture with the Prudential plc, is an important initiative for Discovery. It constitutes a fundamental beachhead that Discovery is building in the UK and the approach to this initiative has been without compromise: the quality of the team, the product proposition and the infrastructure incorporate all of Discovery's learnings. There has been a concerted effort in terms of growth and quality, based on the shareholders' strategic view that building a business of sustainability and success requires relevance and scale. During the period under review, an intense focus was applied to new business production, innovation and the drivers of quality and profitability. While it is important that PruHealth generates an accounting profit, the

collective view of Discovery and the Prudential is that this should not be achieved at the expense of growth potential and quality. (In fact, approximately 61% of PruHealth's expense base was spent on acquisition costs in the year under review.) Within this context, the year's performance has been pleasing.

New business increased by 28% from R418 million to R533 million. Industry statistics illustrate that PruHealth captured 11% of total new business transacted in the UK private medical insurance market. In addition, over the period under review, the fundamental barometers of quality and sustainability, such as the claims-loss-ratio, lapse rates, and expense efficiencies, all improved dramatically, positioning the business for substantial embedded value growth going forward. Operating losses were cut by 29% from R218 million to R155 million, and notably, comparing the last six months of the year with the corresponding period in the previous year, Discovery's share of the losses reduced by 37% from £7.2 million to £4.6 million. Discovery expects PruHealth to be profitable during the 2009 calendar year.

A crucial component of a health insurer's quality and viability is its loss ratio. During the period significant investments were made in the managed care capabilities of PruHealth and consequentially, the loss ratio reduced by 7%.

A component of the product strategy was to create an exciting Vitality gym benefit offering. PruHealth has since broadened the focus of its gym benefit from purely incentivising the number of gym visits to measuring improvements in members' overall health, as indicated by their Vitality status.

PruHealth continued its focus on product leadership and, during the period, launched a number of important innovations. In particular, Vitality Interactive is a remarkably powerful online capability, which allows members to interface more intimately with Vitality. It facilitates a more powerful and personal way for them to manage their health and access the Vitality rewards. This capability is now being rolled out across all of Discovery's businesses. In addition, a number of valuable new partners, such as Eurostar and Mark Warner, have been added to Vitality, further enhancing the value proposition and demonstrating the ability to leverage Vitality's intellectual capital in other markets.

Vitality

Vitality's performance over the year was both pleasing and important. While Vitality performed well from a financial perspective and exceeded expectations, its real significance is the foundational impact it has on Discovery's businesses. In this regard, considerable developments and innovations took place within Vitality during the year.

Operating profit increased by 14% from R43 million to R49 million and the number of members increased by 2% from 1.28 million to 1.30 million. It was encouraging to see engagement levels increase a great deal across a number of areas, including an 8% increase in the number of members exercising at Virgin Active and Planet Fitness gyms.

The most notable progress in the year under review was made in terms of the core clinical capabilities within Vitality and the structures used to create behavioural change.

In addition to Vitality Interactive (discussed in the PruHealth section), fundamental innovations have been the development of Personal Pathways and the Vitality Age concept, which has been developed in cooperation with the Sports Science Institute of South Africa at the University of Cape Town. These product features enable members to understand their risk-adjusted age and set appropriate goals and activities based on their individual circumstances. The combination of these developments creates a powerful platform for future differentiation and added-value for all of Discovery's businesses, and importantly, reflects a deeper understanding of the use of incentives to change behaviour. Other exciting initiatives were launched, such as Vitality's wellness initiatives for children, which aim to reduce the growing problem of childhood obesity by encouraging better nutrition and increased physical activity in our youth. Over 1 000 schools are currently participating in the Vitality Schools Programme, developed as part of the initiative.

Importantly, the extent of Vitality's data and its applicability in Discovery's life and health insurance markets were focused on during the period. This has manifested in a number of important studies that will provide Discovery with deeper insight into the correlations between healthy behaviour and its effect on mortality and morbidity. These studies will soon be submitted to respected international journals for publication.

New businesses

Discovery Invest

During the period, the Group's investment business, Discovery Invest, was launched. Over the year, R157 million was spent developing, launching and transacting Invest's initial new business.

The strategy behind Invest is to harness the sophistication of an open architecture investment platform, offering a broad range of long-term savings products, but differentiating within the products and funds.

Despite Invest's launch at almost the precise moment the investment markets became difficult and volatile, its performance to date has exceeded expectation. Total new business produced amounted to R1.2 billion, consisting of R181 million recurring premium business, and R984 million single premiums – this yielded R206.1 million in annual premium equivalent (APE) for the period under review. Total assets under management, including Discovery Invest seed capital, exceeded R1.4 billion at the year end.

Industry surveys illustrate that in the "Endowment and Voluntary Annuity Linked Investment Services Platforms" category in which the bulk of Discovery Invest's business resides, it managed to capture 11% market share of new business.

Importantly from an acceptance and profit perspective, the performance has been particularly pleasing: 55% of all funds flow through Discovery's on-balance sheet products, and 88% of funds flow into Discovery's in-house portfolios.

There are the two important thrusts of innovation: the use of integration with Vitality and the LIFE PLAN to significantly reduce the asset management and operational fees that the investor pays and, secondly, funds such as RightChoice Investments and the Escalator Funds, which provide the upside of the chosen investment markets, but provide unique and dynamic downside protection. Both of these thrusts are appropriate in volatile investment markets, and the concept of reduced fees has been particularly well received.

Discovery expects an accelerating pace of growth from Discovery Invest. Given the accounting treatment of investment business, which limits the extent of acquisition cost deferral, the strong expected growth is likely to result in a delay in the emergence of accounting profit, despite a positive contribution to Discovery's embedded value.

PruProtect

PruProtect, Discovery's UK life assurance joint venture with the Prudential plc, performed below expectation for the year under review. While the amount spent on PruProtect is in line with budget, the new business production is lower than anticipated.

PruProtect's strategy is predicated on the deployment of the Discovery Life product methodology, wherein benefits are differentiated and modernised. Vitality is used to enable dynamic pricing so that the price points achieved are competitive. This ability to offer a differentiated product at a competitive price is important in a fiercely competitive and commoditised market, such as the UK life assurance industry. To achieve this, a substantial life assurance capability has been built and the migration of the product technology and capability has been successful, along with pleasing receptivity from financial advisers.

However, given the differentiated nature of the product range, a fundamental element of the strategy has been the need to build a high advice distribution channel which interfaces face-to-face with independent financial advisers (IFAs). In this regard, the execution has been behind schedule. The strategic intention was to deploy a franchise distribution channel across the UK that mirrors the successful approach taken in the South African market. This requires a careful establishment of distribution franchises run by hand-picked franchise directors who, in turn, recruit exceptional account managers who call on the IFAs. The structures and algorithms within this approach have been well developed within Discovery, with specifications and account-manager density predetermined based on the distribution of financial advisers within a geographic area, as well as other factors.

During the period the progress made was slow and the migration of skills from Discovery ineffective. The result was that by March 2008 there were seven franchises and 10 account managers, significantly short of the numbers required to achieve the new business targets.

Remedial actions have been taken, including a significant increase and intensity in sales leadership resources and an injection of key Discovery distribution skills. PruProtect has also recruited a number of leading resources from within the UK life assurance market. By 31 August 2008, real progress had been made, with 10 franchises created and an expectation of 100 account managers expected to be operational by December 2008. This channel is also being supported by active telephonic account management. As these channels gain traction, it is expected the business will move in line with expectation.

The wind-down of Destiny Health

During the period under review, Discovery announced its intention to cease transacting health insurance business in the US and, as a consequence, that Destiny Health would exit the US retail insurance market. It would, however, continue to market the Vitality product on a standalone basis to employer groups and health plans. Discovery stated that the wind-down would cost approximately US\$30 million and take a number of years to achieve, given the need to transfer the members to other carriers.

The execution of this market withdrawal has progressed according to plan, with all contracts concluded, and regulatory approval received. Plan members have begun transferring coverage – a process that will take approximately 24 months, with the greater part of the base moving on 1 January 2009. The extent and complexity of this is substantial: the business is underwritten on four different insurance licenses, within six different US states. Importantly, Discovery's approach has been based on maintaining and enhancing its reputation with state regulators, Discovery's insurance partners, plan members, employers and other stakeholders, and the methodology used for the wind-down has kept this mandate top-of-mind. The transfer of business to Trustmark and the exiting of the Guardian Life Insurance Company partnership have been implemented carefully and methodically to ensure this. Discovery is pleased that every single employer group will be offered state-approved alternative coverage with a credible carrier as the process unfolds.

For the year under review, the costs of the wind-down have been achieved within the financial budgets laid down. The membership base had decreased from 33 282 in March 2008 to 26 502 in June 2008, and the cost of the wind-down amounted to US\$10 million out of a total budget of US\$30 million. It is therefore anticipated that a further US\$20 million will be spent over the next 20 months on the wind-down. The pace of the wind-down is slightly ahead of schedule, reflecting the robustness of the alternative coverages that have been provided.

MI Hilkwitz
Chairperson

A Gore
Chief Executive Officer

Income statement

for the year ended 30 June 2008

R million	Group 2008	Group 2007	% change
Insurance premium revenue	4 293	3 710	
Reinsurance premiums	(780)	(593)	
Net insurance premiums	3 513	3 117	
Fee income from administration business	2 532	2 142	
Investment income	210	175	
Net realised gains on financial instruments held as available-for-sale	252	195	
Net fair value gains on financial instruments at fair value through profit or loss	25	151	
Vitality income	791	721	
Net income	7 323	6 501	
Claims and policyholder benefits	(2 156)	(1 919)	
Insurance claims recovered from reinsurers	601	475	
Net claims and policyholder benefits	(1 555)	(1 444)	
Acquisition costs	(1 132)	(1 015)	
Marketing and administration expenses	(3 784)	(3 069)	
Recovery of expenses from reinsurer	148	91	
Transfer from assets/liabilities under insurance contracts	749	587	
– change in assets arising from insurance contracts	806	651	
– change in liabilities arising from insurance contracts	(55)	(60)	
– change in liabilities arising from reinsurance contracts	(2)	(4)	
Fair value adjustment to liabilities under investment contracts	(14)	(141)	
Profit before BEE expenses	1 735	1 510	15
BEE expenses	(23)	(34)	
Profit from operations	1 712	1 476	
Finance costs	(52)	(21)	
Foreign exchange profit – unrealised	4	3	
Profit before taxation	1 664	1 458	14
Taxation	(506)	(385)	
Profit for the year	1 158	1 073	8
Attributable to:			
Equity holders	1 156	1 073	
Minority interests	2	–	
	1 158	1 073	
Earnings per share for profit attributable to the equity holders during the year (cents):			
– basic	212.9	200.0	6
– diluted	211.1	196.4	8

Balance sheet

at 30 June 2008

R million	Group 2008	Group 2007
ASSETS		
Property and equipment	291	228
Intangible assets including deferred acquisition costs	243	113
Assets arising from insurance contracts	3 920	3 114
Investment in associate	1	1
Financial assets	5 299	4 056
– Equity securities	2 055	2 155
– Equity linked notes	459	123
– Debt securities	173	313
– Inflation linked securities	65	–
– Money market	1 034	577
– Derivatives	35	–
– Loans and receivables including insurance receivables	1 478	888
Deferred income tax	128	80
Current income tax asset	–	4
Reinsurance contracts	99	51
Cash and cash equivalents	812	996
Total assets	10 793	8 643
EQUITY		
Capital and reserves		
Share capital and share premium	1 468	1 393
Other reserves	721	912
Retained earnings	3 975	3 057
Total equity	6 164	5 362
LIABILITIES		
Liabilities arising from insurance contracts	1 061	742
Liabilities arising from reinsurance contracts	15	20
Financial liabilities	1 273	810
– Investment contracts at fair value through profit or loss	1 230	735
– Borrowings at amortised cost	37	73
– Derivatives	6	2
Deferred income tax	1 031	806
Deferred revenue	70	122
Provisions	54	48
Trade and other payables	1 116	733
Current income tax liabilities	9	–
Total liabilities	4 629	3 281
Total equity and liabilities	10 793	8 643

Cash flow statement

for the year ended 30 June 2008

R million	Group 2008	Group 2007
Cash flow from operating activities	385	450
Cash generated by operations	972	799
Policyholder net investments	(638)	(125)
Working capital changes	131	(42)
	465	632
Dividends received	33	43
Interest received	194	143
Finance costs	(25)	(23)
Taxation paid	(282)	(345)
Cash flow from investing activities	(274)	(500)
Net purchase of investments	(76)	(331)
Purchase of equipment	(132)	(108)
Purchase of intangible assets	(66)	(61)
Cash flow from financing activities	(329)	(283)
Proceeds from shares issued	50	48
Dividends paid to equity holders	(236)	(239)
Minority share buy-back	(8)	(5)
Repayment of borrowings	(31)	(87)
Loan to share trust participants	(109)	–
Decrease in non-current receivables	5	–
Net decrease in cash and cash equivalents	(218)	(333)
Cash and cash equivalents at beginning of year	996	1 322
Effects of exchange rate changes on cash and cash equivalents	34	7
Cash and cash equivalents at end of year	812	996

Statement of changes in equity

for the year ended 30 June 2008

R million	Attributable to equity holders of the Company							Total
	Share capital and share premium	Share-based payment reserve	Investment reserve	Translation reserve	Hedging reserve	Retained earnings	Minority interest	
30 June 2007								
Balance at 1 July 2006	1 348	205	319	112	4	2 224	-	4 212
Issue of capital	45	-	-	-	-	-	-	45
Share-based payments	-	52	-	-	-	-	-	52
Unrealised gains on investments	-	-	458	-	-	-	-	458
Capital 0 tax on unrealised gains on investments	-	-	(48)	-	-	-	-	(48)
Realised gains on investments transferred to income statement	-	-	(195)	-	-	-	-	(195)
Capital gains tax on realised gains on investments	-	-	8	-	-	-	-	8
Currency translation differences	-	-	-	3	-	-	-	3
Transfer to hedging reserve	-	-	-	-	(6)	-	-	(6)
Net profit for the period	-	-	-	-	-	1 073	-	1 073
Dividends paid to equity holders	-	-	-	-	-	(239)	-	(239)
Realised loss on minority share buy-back	-	-	-	-	-	(1)	-	(1)
Balance at 30 June 2007	1 393	257	542	115	(2)	3 057	-	5 362
30 June 2008								
Balance at 1 July 2007	1 393	257	542	115	(2)	3 057	-	5 362
Issue of capital	75	-	-	-	-	-	(2)	73
Share-based payments	-	32	-	-	-	-	-	32
Unrealised losses on investments	-	-	(25)	-	-	-	-	(25)
Capital gains tax on unrealised gains 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	289	299	151	(18)	3 975	-	6 164

Segmental information

for the year ended 30 June 2008

R million	Health			Life		Vitality	Holdings	Total
	South Africa	United States of America	United Kingdom	South Africa	United Kingdom			
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 policyholder benefits	(12)	(629)	(290)	(1 222)	(3)	-	-	(2 156)
Insurance claims recovered from reinsurers	2	56	60	481	2	-	-	601
Net claims and policyholder benefits	(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	-	-	-	806	-	-	-	806
- change in liabilities arising from insurance contracts	4	45	(59)	(31)	(14)	-	-	(55)
- change in liabilities arising from reinsurance contracts	-	-	-	(2)	-	-	-	(2)
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

Segmental information

for the year ended 30 June 2008

R million	Health			Life		Vitality	Holdings	Total
	South Africa	United States of America	United Kingdom	South Africa	United Kingdom			
30 June 2007								
Income statement								
Insurance premium revenue	158	921	278	2 353	-	-	-	3 710
Reinsurance premiums	(3)	(65)	(25)	(500)	-	-	-	(593)
Net insurance premiums	155	856	253	1 853	-	-	-	3 117
Fee income from administration business	2 138	-	-	4	-	-	-	2 142
Investment income	52	13	4	88	-	15	3	175
Net realised gains on financial instruments held as available-for-sale	-	-	-	195	-	-	-	195
Net fair value gains on financial instruments at fair value through profit or loss	-	-	-	151	-	-	-	151
Vitality income	-	-	-	-	-	721	-	721
Net income	2 345	869	257	2 291	-	736	3	6 501
Claims and policyholder benefits	(128)	(707)	(207)	(877)	-	-	-	(1 919)
Insurance claims recovered from reinsurers	2	64	16	393	-	-	-	475
Net claims and policyholder benefits	(126)	(643)	(191)	(484)	-	-	-	(1 444)
Acquisition costs	-	(44)	(32)	(888)	-	(51)	-	(1 015)
Marketing and administration expenses	(1 432)	(256)	(314)	(404)	(36)	(627)	-	(3 069)
Recovery of expenses from reinsurer	-	-	91	-	-	-	-	91
Transfer from assets/liabilities under insurance contracts								
- change in assets arising from insurance contracts	-	-	-	651	-	-	-	651
- change in liabilities arising from insurance contracts	1	(15)	(25)	(21)	-	-	-	(60)
- change in liabilities arising from reinsurance contracts	-	-	-	(4)	-	-	-	(4)
Fair value adjustment to liabilities under investment contracts	-	-	-	(141)	-	-	-	(141)
Profit/(loss) before BEE expenses	788	(89)	(214)	1 000	(36)	58	3	1 510
BEE expenses								(34)
Profit from operations								1 476
Finance costs								(21)
Foreign exchange profit – unrealised								3
Profit before taxation								1 458
Taxation								(385)
Profit for the year								1 073

Embedded value statement

for the year ended 30 June 2008

The embedded value of Discovery at 30 June 2008 is calculated as the sum of the following components:

- the excess assets over liabilities at the valuation date (ie shareholders' funds); and
- the value of in-force business at the valuation date (less an allowance for the cost of capital and secondary tax on companies (STC)).

The value of in-force business is calculated as the value of projected future after-tax profits of the business in force at the valuation date, discounted at the risk discount rate. Negative reserves are zeroised on a per policy basis in the embedded value and value of new business calculations.

The value of new business is determined at the point of sale equal to the projected future after-tax profits of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the initial reserving strain (for Life), initial expenses, cost of capital and STC. The value of new business is calculated on revised assumptions as at the current reporting date.

The PruHealth business continues to grow in the UK health insurance market, with in excess of R1 billion in premium income written during the period and 173 000 lives covered at 30 June 2008. The key profitability metrics of the business (sales, loss ratio and unit expenses) are stable, and Discovery's share of the PruHealth embedded value is included in Discovery's group embedded value. The PruHealth value of in-force at June 2007 was calculated using known company experience at December 2007 and the June 2008 assumptions are based on current best estimates.

For Destiny Health, no published value has been placed on the current in-force business. An allowance has been made for the expected costs of the run-down of the existing Destiny Health business over the next 20 months.

The auditors, PricewaterhouseCoopers Inc, have reviewed the consolidated value of in-force business and value of new business of Discovery Holdings Limited and its subsidiaries as included in the embedded value statement for the year ended 30 June 2008. A copy of the auditors' unqualified report is available for inspection at the company's registered office.

Table 1: Group embedded value

R million	30 June 2008 ⁽¹⁾	30 June 2007 Restated ⁽²⁾	% Change
Shareholders' funds	6 164	5 362	15
Adjustment to shareholders' funds from published basis ⁽³⁾	(3 879)	(2 833)	
Adjusted net worth	2 285	2 529	
Run-down costs for Destiny Health ⁽⁴⁾	(190)	-	
Value of in-force business before cost of capital	14 864	11 964	
Cost of capital	(75)	(49)	
Cost of STC ⁽⁵⁾	(420)	(278)	
Discovery Holdings embedded value	16 464	14 166	16
Number of shares (millions)	546.0	538.7	
Embedded value per share	R30.15	R26.30	15
Diluted number of shares (millions)	574.5	559.7	
Diluted embedded value per share ⁽⁶⁾	R29.61	R25.64	15

(1) The term of the Health and Vitality projection has been increased from 10 years to 20 years. The comparative figures at 30 June 2007 have also been calculated assuming a 20-year term.

(2) The 30 June 2007 embedded value has been restated to include Discovery's 50% share of the PruHealth value of in-force after cost of capital and STC.

(3) The published Shareholders' funds has been adjusted to eliminate assets under insurance contracts and deferred acquisition costs at June 2008 of R3 845 million (June 2007: R2 813 million) in respect of Life and R34 million (June 2007: R20 million) in respect of PruHealth.

(4) The wind-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.

(5) 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. 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.

(6) The diluted embedded value per share is calculated by increasing the embedded value by the value of the loan to the Discovery Holdings share trust, and by increasing the number of shares by the number of shares issued to the share incentive trust which have not been delivered to participants. An allowance has been made for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.

Table 2: Value of in-force business

R million	Value before cost of capital and STC	Cost of capital	Cost of STC	Value after cost of capital and STC
at 30 June 2008				
Health and Vitality	7 186	–	(203)	6 983
Life ⁽¹⁾	7 317	(39)	(207)	7 071
PruHealth ⁽²⁾	361	(36)	(10)	315
Total	14 864	(75)	(420)	14 369
at 30 June 2007 (Restated)				
Health and Vitality	5 778	–	(135)	5 643
Life ⁽¹⁾	5 998	(32)	(140)	5 826
PruHealth ⁽²⁾	188	(17)	(3)	168
Total	11 964	(49)	(278)	11 637

(1) Included in the Life value of in-force is R41 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. The Life cost of capital is based on a statutory capital adequacy requirement at June 2008 of R174 million (June 2007: R145 million).

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

Table 3: Group embedded value earnings

R million	Year ended 30 June 2008	Year ended 30 June 2007 Restated
Embedded value at end of period	16 464	14 166
Less: Embedded value at beginning of period	(14 166)	(10 587)
Increase in embedded value	2 298	3 579
Net issue of capital	(73)	(45)
Dividends paid	236	239
Minority share buy-back	2	1
Transfer to hedging reserve	16	6
Extension of modelling term for Health and Vitality from 10 years to 20 years ⁽¹⁾		(1 031)
Embedded value earnings	2 479	2 749
Annualised return on opening embedded value (including wind-down costs for Destiny Health)	17.5%	26.0%
Annualised return on opening embedded value (excluding wind-down costs for Destiny Health)	18.8%	26.0%

(1) The embedded value earnings for June 2007 have been adjusted to exclude the impact of the extension of the modelling term for Health and Vitality from 10 to 20 years.

Embedded value statement (continued)

Table 4: Components of Group embedded value earnings

R million	Year ended 30 June 2008	Year ended 30 June 2007 Restated	% Change
Total profit from new business (at point of sale)	805	742	8
Profit from existing business			
• Expected return	1 401	1 030	
• Change in methodology and assumptions ⁽¹⁾	203	(13)	
• Experience variances	728	645	
Reversal of Destiny Health opening value of in-force	–	(5)	
Inclusion of PruHealth value of in-force ⁽²⁾	n/a	168	
Other initiative costs ⁽³⁾	(563)	(353)	
Acquisition costs ⁽⁴⁾	4	(27)	
Foreign exchange rate movements	64	3	
Cost of STC	(63)	23	
Return on shareholders' funds ⁽⁵⁾	90	536	
Embedded value earnings excluding wind-down costs for Destiny Health	2 669	2 749	(3)
Wind-down costs for Destiny Health	(190)	–	
Embedded value earnings including wind-down costs for Destiny Health	2 479	2 749	(10)

(1) The profits from changes in methodology and assumptions 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 in Table 5 below (for previous periods refer to previous embedded value statements).

(2) The June 2008 values are included in the figures above.

(3) For June 2007, the other initiative costs reflect the expenses relating to the establishment of PruHealth, PruProtect and Discovery Invest and the support of Destiny Health. For June 2008, 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.

(4) Acquisition costs relate to commission paid on Life business that has been written over the period but that will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and thus the costs are excluded.

(5) Return on shareholders' funds is shown net of tax and management charges.

Table 5: Methodology and assumption changes

R million	Health and Vitality		Life		PruHealth		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Modelling changes ⁽¹⁾	–	–	(0)	60	–	–	60
Economic assumptions	–	45	17	(390)	–	(41)	(369)
Lapse assumption ⁽²⁾	–	(13)	(21)	(172)	–	(23)	(229)
Mortality and morbidity	–	–	26	(7)	–	43	61
Premium increases ⁽³⁾	–	–	(1)	181	–	–	181
Expenses ⁽⁴⁾	–	427	–	–	–	33	460
Tax ⁽⁵⁾	–	84	(0)	67	–	9	160
Vitality benefits	–	(53)	–	–	–	(68)	(121)
Total	–	490	21	(261)	–	(47)	203

(1) The Life modelling changes primarily relate to the modelling of the Income Continuation Benefit payments.

(2) The Life lapse assumption has been increased following higher than expected lapse experience. The assumption has also been changed to reflect different experience by plan size. An additional lapse rate is assumed over the next two years to allow for the potential impact of the current economic climate on policyholder lapses.

(3) The cancellation assumption for automatic premium increases has been reduced.

(4) The Health and Vitality expense assumption change reflects both lower than expected renewal expense experience and lower than expected cash settled share-based payment expenses.

(5) The corporate tax rate in South Africa has been reduced from 29% to 28%.

Table 6: Experience variances

R million	Health and Vitality		Life		PruHealth		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Expenses	99	-	6	-	4	-	109
Economic assumptions	-	-	12	10	-	-	22
Extended modelling term ⁽¹⁾	-	139	-	9	-	19	167
Lapses ⁽²⁾	16	160	(35)	(159)	-	-	(18)
Policy alterations	-	17	(62)	159	-	-	114
Premium income	-	-	10	35	-	-	45
Mortality and morbidity	-	-	17	8	(9)	-	16
Deferred profits released	-	-	11	(11)	-	-	-
Tax ⁽³⁾	(3)	-	12	19	(62)	23	(11)
Administration fees ⁽⁴⁾	22	312	-	-	-	-	334
Timing of cashflows	-	-	(38)	36	-	-	(2)
Gym start-up costs	-	-	-	-	(24)	-	(24)
Reinsurance	-	-	-	-	83	(83)	0
Other	(19)	(3)	(8)	(1)	(2)	9	(24)
Total	115	625	(75)	105	(10)	(32)	728

(1) The projection term for Health, Vitality, PruHealth and Group Life at 30 June 2008 has not been changed from that used in the restated 30 June 2007 embedded value. Thus, an experience variance arises because the total term of the in-force business is effectively increased by one year.

(2) Included in the Health and Vitality lapse experience variance is an amount of R560 million in respect of members joining existing employer groups during the period, offset by an amount of R437 million in respect of members leaving existing employer groups. A positive variance of R53 million is due to lower than expected lapses. The lapse rate on Life plans and in particular policies with below average premium sizes was higher than expected.

(3) The tax variance for PruHealth includes R27 million in finance charges relating to a settlement discount on early payment by Prudential for UK tax losses ceded to them.

(4) The inflation-linked administration fee increase in 2008 exceeded the long-term inflation assumption in the embedded value model due to higher than expected inflation levels.

Embedded value statement (continued)

Table 7: Embedded value of new business

R million	Year ended 30 June 2008	Year ended 30 June 2007 Restated	% Change
Health and Vitality			
Gross profit from new business at point of sale	213	129	
Cost of capital	–	–	
Cost of STC	(6)	(3)	
Net profit from new business at point of sale	207	126	64
New business annualised premium income ⁽¹⁾	1 079	1 011	7
Life			
Gross profit from new business at point of sale ⁽²⁾	589	639	
Cost of capital	(12)	(8)	
Cost of STC	(16)	(15)	
Net profit from new business at point of sale	561	616	(9)
New business annualised premium income ⁽³⁾	964	695	39
Annualised profit margin ⁽⁴⁾	7.3%	10.1%	
Annualised profit margin excluding Invest Business	8.4%	10.1%	
PruHealth⁽⁵⁾			
Gross profit from new business at point of sale	48		
Cost of capital	(10)		
Cost of STC	(1)		
Net profit from new business at point of sale	37		
New business annualised premium income ⁽⁶⁾	219		
Annualised profit margin ⁽⁴⁾	2.3%		

(1) Health new business annualised premium income is the gross contribution to the medical schemes. For embedded value purposes, Health new business is defined as individuals and 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 2008.

The total Health and Vitality new business annualised premium income written over the period was R2 834 million (June 2007: R2 677 million).

(2) Included in the Life value of new business is R19 million in respect of investment management services provided on off-balance sheet investment business.

(3) Life new business is defined as policies which inceptioned 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.

The new business annualised premium income of R964 million (single premium APE: R71 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 R243 million, servicing increases of R171 million and future dated investment business of R29 million (single premium APE: R4 million) was R1 407 million (single premium APE: R75 million). Single premium business is included at 10% of the value of the single premium.

Discovery Retirement Optimisers added to existing Life Plans have been included in the value of new business (other policy alterations are shown in Table 6 as experience variances and not included as new business). Term extensions on existing contracts are not included as new business.

(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) PruHealth new business is defined as individuals and employer groups which inceptioned during the reporting period. 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 2008.

Table 8: Embedded value economic assumptions

	30 June 2008	30 June 2007
Risk discount rate (%)		
– Health and Vitality	14.00	11.75
– Life	14.00	11.75
– PruHealth	8.70	8.00
Medical inflation (%)		
South Africa	10.00	7.75
United Kingdom	Current levels reducing to 7.50% over the projection period	Current levels reducing to 7.50% over the projection period
Expense inflation (%)		
South Africa	7.00	4.75
United Kingdom	6.00% initially, reducing to 4.00% after two years	4.00
Pre-tax investment return (%)		
South Africa – Cash	9.50	7.25
– Bonds	11.00	8.75
– Equity	13.00	10.75
United Kingdom – Cash	5.25	5.25
Dividend cover ratio	4.5 times	4.5 times
Income tax rate (%)		
– South Africa	28.00	29.00
– 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

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 two years to allow for the potential impact of the current economic climate on policyholder lapses.

The Health lapse assumptions were based on the results of recent experience investigations. The lapse rate for the projection term after 10 years was increased above current experience.

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.

Renewal expense assumptions were based on the results of the latest expense and budget information. 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. The corporate overhead expense allocation to Destiny Health has not been included under Destiny Health in the segmental income statement.

The investment return assumption was based on a single interest rate derived from the risk free zero coupon yield curve. Other economic assumptions were set relative to this yield. The risk discount rate has been set relative to the risk-free rate, increased by a risk premium. 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.

For Life, it is assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 100% equities 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.

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 2008 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 statement (continued)

Table 9: Embedded value sensitivities

R million	Adjusted net worth less Destiny run-down costs	Health and Vitality			Life			PruHealth			Em-bedded value	% Change
		Value of in-force	Cost of capital	Cost of STC	Value of in-force	Cost of capital	Cost of STC	Value of in-force	Cost of capital	Cost of STC		
Base	2 095	7 186	-	(203)	7 317	(39)	(207)	361	(36)	(10)	16 464	
Impact of:												
Risk discount rate + 1%	2 095	6 815	-	(187)	6 746	(50)	(185)	321	(43)	(9)	15 503	(6)
Risk discount rate - 1%	2 095	7 596	-	(224)	7 994	(27)	(235)	406	(28)	(12)	17 565	7
Lapses + 10%	2 095	6 970	-	(197)	6 912	(36)	(196)	318	(34)	(9)	15 823	(4)
Investment return - 1% ⁽¹⁾	2 095	7 186	-	(182)	6 901	(78)	(175)	358	(46)	(9)	16 050	(3)
Renewal expenses + 10%	2 095	6 523	-	(185)	7 250	(40)	(205)	330	(36)	(9)	15 723	(5)
Mortality and morbidity + 10%	2 095	7 186	-	(205)	6 448	(40)	(184)	48	(36)	(1)	15 311	(7)
Health, Vitality and PruHealth: Projection term + 1 year	2 095	7 245	-	(205)	7 317	(39)	(207)	381	(37)	(11)	16 539	0

(1) For Life, 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.

Table 10: Value of new business sensitivities

R million	Health and Vitality			Life			PruHealth			Value of new business	% Change
	Value of in-force	Cost of capital	Cost of STC	Value of in-force	Cost of capital	Cost of STC	Value of in-force	Cost of capital	Cost of STC		
Base	213	-	(6)	589	(12)	(16)	48	(10)	(1)	805	
Impact of:											
Risk discount rate + 1%	193	-	(5)	452	(15)	(14)	35	(12)	(1)	633	(21)
Risk discount rate - 1%	235	-	(7)	715	(8)	(18)	62	(8)	(2)	969	20
Lapses + 10%	201	-	(6)	499	(11)	(15)	31	(10)	(1)	688	(15)
Investment return - 1% ⁽¹⁾	213	-	(5)	494	(23)	(13)	47	(13)	(1)	699	(13)
Renewal expenses + 10%	168	-	(5)	569	(12)	(16)	38	(10)	(1)	731	(9)
Mortality and morbidity + 10%	213	-	(6)	418	(12)	(14)	(35)	(10)	1	555	(31)
Health, Vitality and PruHealth: Projection term + 1 year	216	-	(6)	589	(12)	(16)	53	(11)	(2)	811	1
Acquisition expenses + 10%	195	-	(6)	559	(12)	(15)	38	(10)	(1)	748	(7)

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

Review of Group results

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 18% for the year ended 30 June 2008.

New business annualised premium income

R million	June 2008	June 2007	% change
Discovery Health	2 731	2 577	6
Discovery Life	1 407	971	45
Discovery Vitality	103	100	3
PruHealth	533	418	28
PruProtect	25	–	
New business API excluding Destiny	4 799	4 066	18
Destiny Health	345	768	(55)
New business API of Group	5 144	4 834	6

Gross inflows under management increased 16% for the year ended 30 June 2008.

Gross inflows under management

R million	June 2008	June 2007	% change
Discovery Health	21 118	18 828	12
Discovery Life	3 719	2 357	58
Discovery Vitality	813	721	13
Destiny Health	999	1 449	(31)
PruHealth	1 040	556	87
PruProtect	15	–	
Gross inflows under management	27 704	23 911	16
Less: collected on behalf of third parties	(20 088)	(17 338)	16
Discovery Health	(18 637)	(16 532)	
Discovery Life	(601)	–	
Destiny Health	(323)	(528)	
PruHealth	(520)	(278)	
PruProtect	(7)	–	
Gross income of Group	7 616	6 573	16

Earnings

The following table shows the main components of the increase in Group profit from operations for the year ended 30 June:

Earnings source

R million	June 2008	June 2007	% change
Discovery Health	891	736	21
Discovery Life	978	707	38
Discovery Vitality	49	43	14
PruHealth	(155)	(218)	29
Operating profit from established businesses	1 763	1 268	39
Discovery Invest	(157)	–	
PruProtect	(134)	(36)	>100
Destiny Health	(192)	(102)	(88)
Group operating profit before investment income and unbundling costs	1 280	1 130	13
Unbundling costs	(18)	–	
Investment income	210	175	20
Realised gains on shareholders' portfolios	252	195	29
Investment returns on assets backing policyholder liabilities	25	151	(83)
Fair value adjustment to liabilities under investment contracts	(14)	(141)	90
Profit from operations before BEE expenses	1 735	1 510	15

Review of Group results (continued)

Headline earnings

The reconciliation between earnings and headline earnings is shown below:

R million	June 2008	June 2007	% change
Net profit attributable to equity shareholders	1 156	1 073	8
Adjusted for:			
– realised profit on available-for-sale investments net of CGT	(222)	(187)	
Headline earnings	934	886	5
BEE expenses	23	34	
Headline earnings before BEE transaction	957	920	4
Headline earnings per share before BEE transaction (cents):			
– undiluted	176,2	171,5	3
– diluted	174,7	168,4	4
Headline earnings per share (cents):			
– undiluted	172,0	165,2	4
– diluted	170,6	162,2	5
Weighted number of shares in issue (000's)	543 016	536 560	
Diluted weighted number of shares (000's)	547 530	546 579	

Taxation

All South African entities are in a tax paying position. South African income tax has been provided at 28% (2007: 29%) and secondary tax on companies at 10% in the financial statements and embedded value statements. Destiny operations have significant tax losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

Discovery obtains tax relief on half of the PruHealth losses and 100% of the PruProtect start-up losses through Prudential Assurance Company Limited ("Prudential") in the UK.

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.

Investments

Investments have increased due to the sale of the new Discovery Invest products. These investments directly match the policyholder liabilities. Discovery Invest was launched in October 2007.

Balance sheet

The increase in the assets arising from insurance contracts of R806 million is as a result of profitable new business written by Discovery Life.

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. 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.

Accounting policies

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) including IAS 34, as well as the South African Companies Act 61 of 1973, as amended, and are consistent with the accounting policies applied in the annual report and the corresponding prior year period.

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 IFRS 2. 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 R23 million in the year ended 30 June 2008 (2007: R34 million) in accordance with the requirements of IFRS 2.

An additional R19 million (2007: R63 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.

Discovery has acquired cash-settled share options to hedge approximately 66.6% of its obligations in respect of options granted under the employee share incentive scheme.

Directorate

Mr AL Owen was appointed as a non-executive director of the board of Discovery with effect from 6 December 2007. With effect from 1 January 2008, Mr P Cooper and Ms T Slabbert were appointed as non-executive directors of the board of Discovery.

Mr LL Dippenaar, Mr PK Harris and Mr JP Burger resigned as non-executive directors of the board of Discovery with effect from 31 December 2007.

Dividend policy and capital

An interim dividend of 21.5 cents per share was paid on 25 March 2008.

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 were R174 million (2007: R145 million) and were covered 7.0 times (2007: 10.7 times).

Cash dividend declaration:

The board has declared a final dividend of 23 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 10 October 2008
– Date trading commences "ex" dividend	Monday, 13 October 2008
– Record date	Friday, 17 October 2008
– Date of payment	Monday, 20 October 2008

Share certificates may not be dematerialised or rematerialised between Monday, 13 October 2008 and Friday, 17 October 2008, both days inclusive.

Audit

The auditors, PricewaterhouseCoopers Inc, have issued their opinion on the Group financial statements for the year ended 30 June 2008. A copy of the auditors' unqualified report is available for inspection at the company's registered office.

Transfer secretaries

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Discovery Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1999/007789/06)
JSE share code: DSY
ISIN: ZAE000022331

Directors

MI Hilkwitz (*Chairperson*), A Gore* (*Chief Executive Officer*), Dr BA Brink, JP Burger****, P Cooper***, LL Dippenaar****, Dr NJ Dlamini, SB Epstein (*USA*), PK Harris****, NS Koopowitz*, Dr TV Maphai, HP Mayers*, AL Owen (*UK*)**, A Pollard*, JM Robertson* (*CIO*), SE Sebotsa, T Slabbert***, B Swartzberg*, SV Zilwa

*Executive **Appointed 6 December 2007 ***Appointed 1 January 2008 **** Resigned 31 December 2007

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