Discovery

Integrated Annual Report 2011

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About our report

Our report for this year is entitled ***Innovation for good***. It is a bold statement, but one we believe tells the story of Discovery: how we have performed during the past year, what is important for us and where we are heading.

Performance reviews for 2011

During the past year we delivered on key strategies to deliver value for our clients and build a quality and sustainable business for all stakeholders.

Annual Financial Statements

2011

Discovery

This section provides an overview of Discovery: our group structure, companies, key facts, business model and framework for sustainable development

About Discovery

We provide an overview of our performance during the past year

Corporate Governance

This section provides information on how we manage our business in a responsible, ethical and transparent manner

INN

Our core purpose is to make people healthier and to enhance and protect their lives

Discovery was established in 1992, initially as a specialist risk manager in the private health insurance market. We have since expanded into an integrated financial services organisation with nearly five million clients in South Africa (SA), the United Kingdom (UK), United States of America (USA) and China. Our products and services include health insurance, life assurance, long-term savings and investment products, short-term insurance, credit card products and wellness benefits.

OVATION for good

We understand the importance of good health and overall wellness, which is why we work every day to make people healthier and to enhance and protect their lives. For nearly 20 years, we have used the principles of innovation, wellness and consumer engagement to deliver quality products and services that meet the needs of our clients. In delivering on our core purpose, our aim is to have a positive impact on people's lives, throughout their lives.

Our products and services help improve the health and wellness of our clients, protect their financial future and enhance the quality of their lives. Continuous innovation, made possible by talented and dedicated employees, also changes our markets and industries, bringing about positive social change. This is the driving force behind our financial strength, growth and future sustainability.

Discovery occupies a central role in South Africa's healthcare sector and life assurance industry as well as the other industries in which we operate. As one of the country's leading businesses, we make an important contribution to the South African economy. With this comes the responsibility to be an ethical and effective leader that understands the risks and opportunities of our business, engages with stakeholders and has a positive impact on society.

About our report

> "Our report this year is entitled ***Innovation for good***. It is a bold statement, but one we believe tells the story of Discovery: how we have performed during the past year, what is important to us and where we are heading. Innovation today is a key requirement for companies to gain competitive advantage and meet client needs within an increasingly complex environment. The challenge for companies globally is to not only be innovative with the products and services they design, but also to ensure that these innovations have a positive impact on society."

In this report, we provide an overview of Discovery's performance in the context of a complex financial, economic, social and environmental setting. We hope to illustrate the role that innovation plays in our performance.

How our reporting has developed during the past year

In reporting in an integrated way on our performance, we followed the recommendations of the King III Code of Governance Principles, the Framework for Integrated Reporting and the Integrated Report Discussion Paper released in January 2011, as well as the Global Reporting Initiative principles.

Our integrated report is the result of work done by a combined team that involves Discovery's Finance, Risk, Compliance, Sustainability, Operational and Marketing divisions. Our Financial Director, Richard Farber, is the project leader.

Understanding sustainability issues for Discovery

During the past year, our Sustainability Division facilitated various internal dialogues to understand what our business views as material issues and risks. The outcomes of these dialogues identified the key areas where Discovery can play a leadership role and have a positive impact on society. We further determine and define material issues that impact our business according to the business strategy and objectives for each operational area.

The report on our sustainability performance for 2011 is on page 34.

For more detail on Discovery's sustainability initiatives, go to **www.discovery.co.za** for our Report to Society.

The scope and boundary of our report

We report on strategic and material information for all operating subsidiaries. In some instances, data and information were only available for the South African operations. In future reporting cycles, we aim to develop our reporting processes to include our businesses in the UK, the USA and China, in line with the Global Reporting Initiative guidelines. We prioritise topics according to the important stakeholder groups we impact and the factors we believe are important for each business area in Discovery.

Global Reporting Initiative (GRI) level

Through our Integrated Annual Report and Report to Society, we self-declare a GRI Application level B.

Data collection method

During the year we completed work on an integrated performance management system that will help us track our progress against targets. We have also worked with each business area to understand the business objectives and risks.

How we report to our stakeholders

We report in the following ways on our performance:

- Annual and interim financial results announcements
- Integrated Annual Report
- Discovery website and dedicated Investor Relations website
- Discovery Report to Society and GRI information available online
- Investor roadshows.

Our previous Annual Report was published for the financial year 1 July 2009 to 30 June 2010. The period for this report is 1 July 2010 to 30 June 2011.

Our contact details

DISCOVERY GROUP FINANCIAL DIRECTOR
Richard Farber
+27 11 529 1855

DISCOVERY PR AND INVESTOR RELATIONS
Duke Malan
+27 11 529 1151

HEAD OF DISCOVERY PEOPLE AND SUSTAINABLE DEVELOPMENT
Dr Penny Tlhabi
+27 11 529 2895

Approval by the Discovery Board of Directors

The Board of Directors approved the Discovery Integrated Annual Report on 14 October 2011, based on the recommendation of Discovery's Audit and Risk Committee.

Signed by the Chairperson of the Discovery Board of Directors:

Monty Hilkowitz

Statement from the Transformation and Sustainable Development Committee

The Transformation and Sustainable Development Committee has the responsibility to oversee transformation and sustainability issues for Discovery to ensure the Group meets its objectives. One of the responsibilities of this committee is to ensure transparent communication to stakeholders on issues that impact them, as well as the sustainability of Discovery. The committee has therefore reviewed and provided input into this year's report and is satisfied that the 2011 Integrated Annual Report provides an accurate and integrated view of Discovery's performance during the past financial year.

Signed by the Chairperson of the Transformation and Sustainable Development Committee:

Sindi Zilwa

Statement from Group Internal Audit

Discovery Group Internal Audit performed a limited review of the statements and quantitative data contained in the Integrated Annual Report with the exception of the Annual Financial Statements.

Based on the results of our work performed, in our opinion, the report:

- Provides confidence in the information presented within the report. The level of data accuracy was found to be within acceptable limits, and additional improvements were recommended to Discovery management to reduce potential for minor anomalies and misstatements, which were subsequently amended. Data trails selected were easily identifiable and traceable, and the personnel responsible were able to reliably demonstrate the origin(s) and interpretation of data
- Appropriately reflects environmental, social and economic performance achieved during the period
- Represents a fair statement of Discovery's sustainability initiatives
- Contains quantitative data which is free from material misstatement

All suggested changes were satisfactorily addressed by Discovery management before finalising the report.

Overall, Group Internal Audit is satisfied that the report is an appropriate representation of the relevant aspects during the reporting period, based on the limited material sampling approach applied during this review.

Your comments on our report

It is important for us to give our stakeholders relevant information on how our company has performed. We therefore appreciate your comments and feedback on our report. Send your comments to: **askthecfo@discovery.co.za**

Information for readers of our 2011 Integrated Annual Report

You can find the following information in our 2011 Integrated Annual Report:

- Our progress during the past year
- Views from Adrian Gore, Discovery's Chief Executive Officer
- Interview with Richard Farber, Discovery's Financial Director
- Our performance during the past year
- Highlights for 2011
- More about Discovery
  - Where we make a difference
  - Our business strategy
  - Discovery's Board of Directors and Executive Committee
- Our stakeholders
- Corporate Governance
- Annual Financial Statements

Preparation of Annual Financial Statements

Our Annual Financial Statements for the year ended 30 June 2011 were:

Prepared by
L Capon *CA(SA)*
L van Jaarsveldt *CA(SA)*

Assisted by
M Palmer
D Argyle
N Ntuli
W Letchman

Supervised by
R Farber *CA(SA), FCMA*

Audited by
PricewaterhouseCoopers Inc.

How we report on our progress

Throughout the report we indicate our progress in terms of 'priority achieved', 'priority ongoing', and 'priority not yet started'.

Key to symbols

- **Priority achieved**
- **Priority ongoing**
- **Priority not yet started**

> We are a proudly South African company that aims to be a leader in our respective industries as well as in the South African economy and society. We seek to add value to people's lives by delivering positive structural change to the markets and industries in which we operate. Our products and services are designed to make people healthier and to enhance and protect their lives across a spectrum of financial and protection needs.

Innovation and financial prudence

Integration

Wellness

Consumer engagement

Incentive-based insurance

Our framework for sustainable development

In delivering on our core purpose and key business strategies, we focus on six key areas of sustainability.

Read more about our sustainability performance on page 34 of this report.

1

A values-based culture of opportunity and innovation

- Create opportunities for our people to grow and develop their full potential
- Create an environment for innovation
- Embrace diversity and transformation in our business

2

Strengthen the healthcare system and expand access to care

- Use our healthcare assets to improve the efficiency and quality of care for our clients
- Invest in building healthcare capacity to make primary healthcare accessible to more South Africans
- Invest in scarce healthcare skills for South Africa
- Build a robust healthcare system through key partnerships and stakeholders

3

Improve the financial security of our clients and protect them through innovative products and services

- Provide life assurance, short-term insurance and investment products that address areas of need for consumers, such as the problem of underinsurance in South Africa
- Continuous innovation to meet the evolving needs of clients at every life stage
- Use the power of integration to deliver unique value to clients

Our business model

Discovery's business model ensures we create value by delivering on our core purpose of making people healthier and enhancing and protecting their lives. The way we do business, the products and services we deliver and our interactions with our stakeholders must add value to people's lives.

Our business model relies on key strategic competencies to create and deliver value:

We use innovation to disrupt markets and create value. Central to our business model is the ability to combine and balance innovation with financial prudence and a focus on meeting consumers' needs by creating products and services that deliver value and efficiency.

Our best-of-breed products and services enable us to use the principle of integration to give consumers value by creating efficiency and long-term value. Our product offerings integrate seamlessly through the Vitality programme and DiscoveryCard to enhance value for clients. Integration as a key strategic competency creates efficiency and long-term loyalty, thereby contributing to the profitability and sustainability of our business.

Our philosophy is to contribute to a healthier society by giving people access to healthcare and encouraging healthy behaviour and lifestyles. Across our product offerings, we provide consumers with the tools and incentives to become healthier through Vitality. Vitality is a unique differentiator and driver of competitive advantage and has been scientifically proven to improve health outcomes and lower healthcare expenses.

A focus on consumers and their needs form the basis of our approach. Our client-centric approach aims to create products which fully engage our clients, bring positive change in their behaviour and offer them real value.

Incentive-based insurance applies the principles of behavioural economics to insurance. Through a combination of financial incentives and increased client knowledge, an incentive-based insurance model structurally reduces the cost of insurance and significantly improves the value consumers receive.

4

Use the principles of behavioural economics to drive positive behaviour change

- Lower healthcare costs and improve the morbidity and mortality experience in life assurance through Vitality
- Help people make the positive lifestyle changes that are needed to address the increasing risk of chronic diseases of lifestyle
- Apply the philosophy of Vitality to structurally reduce the cost of insurance through positive behaviour change

5

Promote a stable society

- Ensure that the way we do business is accountable, transparent and ethical
- Build a world-class business that enhances South Africa's reputation internationally
- Support a culture of confidence and entrepreneurship in South Africa

6

Our environmental responsibility

- Measure, understand and monitor our direct environmental impact
- Find innovative ways to improve our operational efficiencies by reducing our environmental impact
- Understand the impact of environmental issues, such as climate change, on our business

6 323
employees

South Africa

The industries in which we operate

- Health insurance
- Life assurance
- Long-term savings and investments
- Short-term insurance
- Wellness and lifestyle benefits
- Credit card

Discovery Health

100%

2 539 806 lives covered

Launched in 1992. One of South Africa's leading healthcare funders and administrator of the largest open medical scheme in South Africa. Read about Discovery Health's performance on page 46.

Discovery Vitality

100%

1 517 276 lives

Launched in 1997. Science-based wellness programme, competitive differentiator and value creator. Read more about Vitality and DiscoveryCard on page 70.

Discovery Life

100%

657 413 lives covered

Launched in 2001. Discovery Life is South Africa's fastest growing major life assurer in the risk market, and the first South African insurer to separate risk from investment, leading significant change in the industry. Go to page 56 for more information on Discovery Life.

Discovery Card

100%

224 068 primary card holders

Launched in 2004. A Visa credit card offering that integrates with the Vitality and VitalityDrive™ programme to give clients cash back on shopping and travel.

Discovery Invest

100%

48 723 clients

Launched in 2007. Provider of innovative investment and long-term savings solutions that address gaps in the market by offering greater protection against poor investment choices. Information about Discovery Invest's performance is on page 65.

Discovery Insure

75%

5 100* clients

Launched in 2011. Discovery Insure provides comprehensive short-term insurance solutions and encourages better driving through its incentive-based driver programme, VitalityDrive™. Go to page 84 for information about Discovery Insure.

** Number of policies sold at the time of writing the report*

726
employees

United Kingdom

The industries in which we operate

- Health insurance
- Life assurance
- Wellness and lifestyle benefits

PRUHEALTH

75%

634 691 lives covered

Launched in 2004. PruHealth is a leading UK-based health insurer that offers private medical insurance and the only health insurer in the UK market that rewards people for leading a healthy lifestyle.

PRUPROTECT

75%

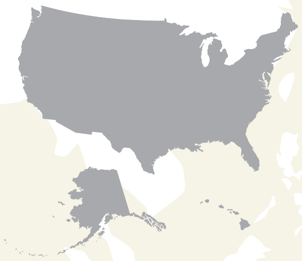
68 880 clients

Launched in 2007. PruProtect offers pure-risk protection products in the UK market and is the only life assurer to give clients the opportunity to reduce their monthly premiums when they look after their health with Vitality. Read about PruHealth and PruProtect on page 76 and 80.

Visit **www.pruhealth.co.uk** for more information about PruHealth's unique approach to healthcare in the UK private medical insurance market.

Visit **www.pruprotect.co.uk** for more information about how PruProtect offers comprehensive life cover, serious illness cover and income protection cover in the UK market.

54
employees



United States of America

The industry in which we operate

- Corporate wellness solutions

The Vitality Group

75%

680 000
clients
(including HumanaVitality)

Launched in 2008. The Vitality programme is a comprehensive health and wellness solution that educates, assists and motivates individuals to engage in healthy behaviour. The Vitality Group offers the Vitality programme to employers as a stand-alone programme.

HUMANA Vitality

25%

Launched in 2011. HumanaVitality is a joint venture between Humana Inc and Discovery Holdings that makes Vitality available to Humana clients with commercial medical plans. Read about The Vitality Group's performance on page 90 of this report.

Go to **www.thevitalitygroup.com** and **www.humana.com/vitality** for more information about Vitality in the USA market.

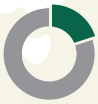
4
employees

China

The industry in which we operate

- Health insurance

中国平安 PING AN



20%

300 000
clients

In 2010, Discovery Holdings acquired a 20% share in Ping An Health Insurance Co. of China Ltd, a subsidiary of Ping An Insurance (Group) Company of China, Ltd. Read about Ping An Health's performance on page 94 of this report.

Our area of expertise

Consumer-engaged health assurance

Our health assurance subsidiaries – Discovery Health in South Africa, PruHealth in the UK and our joint venture with Ping An Health in China – offer sustainable health assurance products that aim to make people healthier and provide comprehensive cover for medical expenses when they are ill.

Our innovations

Discovery Health pioneered the Medical Savings Account that enables consumers to control their day-to-day healthcare spending. Traditionally, medical schemes followed a ‘use-it-or-lose-it’ structure that created perverse incentives for consumers to overspend on day-to-day healthcare costs. Cover typically started at the first Rand and limits, especially on large hospital accounts, were used to control costs. This had a negative impact for members who could not access benefits when they needed them most.

Discovery Health’s philosophy has been to provide members with extensive cover when they are really ill and need it most. These are generally large and unforeseen illnesses where members have no control, and only affect a small percentage of the membership base at any time. Day-to-day expenses are usually within a member’s control and affect many more members at any given time. Discovery Health’s Medical Savings Account structure brought a ‘use-it-or-save-it’ approach to medical schemes that helped to lower costs.

CASE STUDY

The power of Medical Savings Accounts

A study published by Discovery Health, covering over three million lives’ years data, showed that people spend 49% less on elective day-to-day care when they spend through a Medical Savings Account, compared to insured benefits. At the same time, they do not give up preventive care or experience worse health outcomes.

(Shaun Matisonn, “Medical Savings Accounts and Prescription Drugs: Evidence from South Africa” NCPA Policy Report No 545, August 2002)

Our area of expertise

Consumer-engaged life assurance

Through Discovery Life in South Africa and PruProtect in the UK, we offer flexible and relevant protection products that meet people’s needs. We price these products dynamically to offer better value for money.

Our innovations

When Discovery Life entered the life assurance market, the industry had been stagnant for many years. The universal life policy, which combined risk cover with an investment element, dominated the market. This led to increasing dissatisfaction from consumers during the 1990s as volatile investment markets were delivering poor returns, which compromised the value of policyholders’ risk benefits.

Discovery Life was the first life assurer in South Africa to create a policy focused entirely on risk protection. The Discovery LIFE Plan provided immediate cover for the financial impact associated with health-related risks such as disability, illness and death. This led to lower premiums and affordability for consumers as competitors re-engineered their products. Today, risk-only life assurance products are the dominant type of long-term risk insurance products sold.

CASE STUDY

Objective criteria with Discovery Life

At the time of Discovery Life’s launch, claim repudiations were one of the major causes of consumer complaints about the life assurance industry. The industry relied on subjective, occupation-based definitions to assess disability claims. This meant that if a policyholder was partially or temporarily disabled, payouts were typically minimal. To address this, Discovery Life developed objective criteria for claims assessment that focus on categories of medical impairment. If a claim matches the criteria for a specific category, Discovery Life makes a pre-defined payment based on the severity of the impairment.

Our area of expertise

Long-term savings and investment products

Discovery Invest offers consumers a unique and comprehensive product range that addresses the current gaps in the market by offering greater protection against poor investment choices.

Our innovations

The investment industry was largely efficient at the time of Discovery Invest’s launch. Consumerism has driven costs lower, provided greater choice and transparency for investors, and contributed to the emergence of specialist asset managers. Discovery Invest focused on product differentiation and investment protection in its product design. We capitalise on the breadth and skill of the asset management industry and combine this with the integration capabilities of Vitality and Discovery Life. In this way we are able to offer investors greater efficiency and protection against poor investment choices.

CASE STUDY

Protection against market volatility with Discovery Invest

The RightChoice™ Investment and Escalator Funds are aimed at protecting investors against market volatility. These products allow investors to adjust their returns automatically at payout stage should the fund they choose deliver lower returns than an alternative investment decision.

Our area of expertise

Wellness

Vitality is our science-based wellness programme that encourages people to adopt a healthier lifestyle.

Our innovations

Vitality has been proven to help reduce long-term healthcare costs by removing cost as a barrier to access a healthy lifestyle, and encouraging people to adopt healthier lifestyle habits.

It underpins all Discovery's businesses and is an important mechanism to integrate products and deliver additional value.

Our area of expertise

Credit card product

The DiscoveryCard is our Visa credit card offering that unlocks a world of rewards for clients through cash back on shopping, travel and Discovery Miles.

Our innovations

DiscoveryCard is a new-generation credit card that provides a mechanism to further incentivise better health among members. It also provides further integration opportunities.

Our area of expertise

Short-term insurance market

Through Discovery Insure, we offer comprehensive short-term insurance products. Coupled with this product offering is our incentive-based driver programme, VitalityDrive™, that encourages clients to improve their driving, thereby reducing their risk.

Our innovations

We have leveraged the behavioural expertise developed in the Vitality programme, in combination with the latest motor telematics technology, to create incentive-based short-term insurance products. Through VitalityDrive™, we dynamically reward individual driving behaviour and fundamentally change the short-term insurance value proposition.

CASE STUDY

VitalityDrive™ draws on the latest technologies and Discovery's expertise in behavioural economics

The programme uses the latest motor vehicle telematics technology – DQ-Track™ – and proprietary behavioural algorithms to develop a scientific measure of driver behaviour, the Driver Quotient™. A driver's Driver Quotient™ measures the key aspects of a person's driver intelligence. Policyholders can improve their Driver Quotient™ in various ways and earn DQ Points™. The more DQ Points™, the more rewards a policyholder can earn.

Our milestones

March 1992:
Adrian Gore establishes Discovery with the support of RMB Holdings

February 1993:
Discovery introduces first consumer-driven healthcare plans that combine actuarial risk management and a Medical Savings Account underpin

October 1997:
Discovery launches Vitality, a groundbreaking science-based wellness programme

September 1999:
Discovery lists on the Johannesburg Securities Exchange

October 2000:
Discovery launches Discovery Life, a life assurance subsidiary

October 2002:
Discovery Health launches KeyCare, a product range for the previously uninsured market

April 2004:
Discovery and Prudential plc announce UK private medical insurance joint venture, PruHealth

October 2004:
Discovery enters the credit card market with the DiscoveryCard, a Visa credit card offering

September 2007:
Discovery and Prudential plc launch PruProtect, a UK life assurance company

October 2007:
Discovery launches Discovery Invest, a linked investment service provider specialising in long-term savings and investments

December 2009:
Discovery enters into an agreement with Ping An Health Insurance Co. of China Ltd, a wholly-owned subsidiary of Ping An Insurance (Group) Company of China, Ltd, to acquire a 20% share in the company

August 2010:
Discovery acquires Standard Life Healthcare, previously a wholly-owned subsidiary of the Standard Life Group and the UK's fourth-largest private medical insurance (PMI) provider, thereby increasing its shareholding of PruHealth and PruProtect to 75%

February 2011:
Discovery announces a joint venture with Humana, the fourth-largest health insurer in the USA, to launch HumanaVitality, in which Discovery holds a 25% stake. HumanaVitality provides its commercial plan members with access to the Vitality programme

May 2011:
Discovery launches Discovery Insure, our short-term insurance company, and VitalityDrive™, an incentive-based driver programme modelled on the principles of Vitality

Operating profit increased by **32%** to **R2 838 million**

Gross inflows under management increased by **21%** to over **R50 billion**

Embedded value per share increased by **19%** to **R48.45**

We acquired Standard Life Healthcare and increased our shareholding in PruHealth and PruProtect from **50%** to **75%**

The Vitality Group completed a joint venture with Humana in the USA and capitalised a new entity, HumanaVitality

We launched Discovery Insure, our entry into the short-term insurance market

PruHealth delivered an operating profit of **R61 million**

680 000 members committed on Vitality in the USA

The Discovery Foundation increased its funding commitment to **R69 million** and the number of recipients to **143**

Key innovations launched during the year include VitalityDrive™, AccessCover™ and Discovery Guaranteed Escalator Annuity, as well as PracticeXpress and MedXpress

Read our detailed performance reviews on page 30.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Creating benefit and contribution stability for the Discovery Health Medical Scheme members and improved quality of care	• Average contribution increase of 7.9% for 2011 • Benefit enhancements introduced	◐
Continued product innovation for Discovery Life that leverages the integration capabilities of Discovery Vitality	• New products launched: AccessCover™, Philanthropy Fund, Income Continuation Benefit Extender	●
Developing targeted product offerings for Discovery Vitality	• We launched KeyFIT, our wellness programme aimed at the KeyCare market	●
Investing in the international capabilities of Vitality	• We have invested in the core capabilities of Vitality with a view to rolling it out in other markets	◐
For Discovery Invest, a continued focus on distribution support, product innovation, brand credibility and awareness	• Discovery Guaranteed Escalator Annuity™, Discovery Classic Flexible Investment Plan, Discovery Best Ideas Fund and Discovery Global Escalator Fund launched • We hosted the second Discovery Invest Leadership Summit	●
Leveraging the strengths of Standard Life Healthcare and PruHealth to create the leading private medical insurance provider in the UK	• We started integrating the Standard Life Healthcare business into the PruHealth business. New product range launched	◐
Focusing and developing integration opportunities across Vitality and PruProtect	• We launched VitalityPlus in the UK market. Innovative benefit enhancements launched, including Education Cover product	◐
Completing our stakeholder engagement on our environmental policy and strategy and implementing our policy	• Internal stakeholder engagement completed • Environmental and climate change policy completed	◐
Agreeing on and implementing reduction targets	• We have not agreed on specific reduction targets yet • We are currently investigating different ways of reducing our energy usage	○
Implementing recommendations from the energy efficiency audit to further reduce our electricity consumption	• We are currently investigating different ways of reducing our energy usage	○
Delivering on the environmental initiatives identified by the Green Forum	• Discovery currently operates a 60% paperless environment in the area of communication to clients • Discovery's Green Forum is investigating reducing our reliance on paper even further in other areas of the business	◐
Formulating and rolling out awareness and communication campaigns to educate our employees on environmental issues	• Employee awareness campaign hosted on World Environment Day	◐
Rejuvenating our core values throughout Discovery	• Project to rejuvenate Discovery's core values throughout the business started in the second half of 2011	◐
Continuing to embrace diversity in our business to meet our transformation goals	• Targeted mentorship and development programme implemented in 2010. The Discovery CEO programme is aimed at developing high-potential, primarily black senior leaders at Discovery	◐
Fully integrating and aligning the Standard Life Healthcare team into Discovery	• Successful integration of Standard Life Healthcare team into PruHealth • First PruHealth Leadership Conference hosted	●
Continuing to develop our leaders	• The Discovery Leadership Architecture, aimed at developing leaders at all management levels, was completed during the year	◐

A summary of our progress in 2011

Key to symbols — ● Priority achieved — ◐ Priority ongoing — ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Increasing employee engagement in Discovery and retaining talented employees	• Increased employee engagement in our internal rewards programme, Prosperity	◐
Continuing our engagement with stakeholders on healthcare issues in South Africa	• We continued our engagement with stakeholder groups such as the Department of Health and the Government on issues impacting healthcare in South Africa	◐
Implementing three private-public initiatives with the Department of Health and other stakeholders	• Partnership with the South African National Council for the Blind continued. This project is aimed at increasing the number of cataract surgeries in the public sector • A training programme on antiretroviral treatment for nurses was done in partnership with the Lung Institute of the University of Cape Town • We partnered with the Operation Abraham Collaborative to facilitate training of healthcare professionals in KwaZulu-Natal on high-volume medical male circumcision	●
Implementing a national immunisation project in partnership with UNICEF	• The Discovery Fund implemented a partnership with UNICEF to expand coverage of immunisation in South Africa	◐
Continuing the impact and work of the Discovery Foundation to increase the number of specialists in South Africa	• We increased our financial support for specialist training to R69 million, and the number of Foundation Award recipients to 143	◐
Developing our enterprise development strategy further to identify more opportunities for business partnerships that will benefit our supply chain	• We have contributed over R15 million towards developing small and medium enterprises in our supply chain	◐
Engaging with internal and external stakeholders on Discovery's sustainability strategy	• We have completed an extensive internal stakeholder engagement process on Discovery's framework for sustainable development • We have not yet completed our external stakeholder engagement process	◐
Defining, communicating and implementing our sustainability strategy	• We started a change management programme to communicate and drive sustainability initiatives and objectives within Discovery	◐
Discussing and agreeing on sustainability targets for our various business areas	• We have agreed on and implemented specific priorities for each area of sustainability	◐

Our key priorities for 2012 and how we aim to address them

Have a positive impact on society through our products and services and the way we do business

- Continue to use innovative product solutions to service the needs of the lower-income market, and form key strategic partnerships in the area of healthcare to broaden access to care
- Continue the impact and work of the Discovery Foundation to increase the number of specialists in South Africa
- Increase the focus of the Discovery Fund on nutrition as an important element of primary healthcare
- Roll out an awareness campaign and implement working plans for the Discovery UNICEF Immunise SA programme
- Increase the number of Discovery employee volunteers and improve the quality of engagement with community projects
- Encourage positive health behavioural change for Vitality clients through different platforms
- Refine important Vitality benefits to drive higher engagement levels in key health behaviours and activities
- Build on the success of the HealthyFood™ benefit to improve the nutrition and well-being of our members and provide them with more value
- Expand access to financial products by developing products targeted at the lower-income market
- Continue to measure and track our environmental performance
- Agree on targets for reducing our carbon emissions
- Implement a working plan to meet the commitments of our climate change policy

Play a leadership role for our clients and in our industries and country

- Continue to leverage our scale, resources and partnerships to provide access to quality healthcare on a sustainable basis, and impact on the entire industry in a positive way
- Leverage Vitality as the global thought leader in wellness and have a positive impact on society in the area of wellness
- Implement our enterprise development strategy to focus on opportunities to develop a culture of entrepreneurship in South Africa
- Continue to encourage entrepreneurial and business knowledge in South Africa through the Discovery Invest Leadership Summit

Build financial strength and sustainability to benefit all stakeholders

- Provide benefit and contribution stability across the Discovery Health product range
- Bring down the cost of healthcare for Discovery Health members
- A continued focus on managing financial risk for Discovery Life
- Further development of Ping An Health's operational, service and risk management infrastructure in China
- Drive new business for Discovery Insure to reach scale

Invest in the talent of our people

- Continue to identify, develop and retain talented employees through our talent management programme
- Focus on developing the leadership skills of Discovery people through our Leadership Development Architecture, with a special focus on senior leadership development
- Focus on rejuvenating Discovery's core values throughout all our businesses
- Continue our focus on diversity and transformation
- Encourage the health and wellness of our employees
- Engage employees in our business through our internal rewards programme, Prosperity

Deliver innovation for the benefit of our clients

- Drive further service and benefit innovations for Discovery Health members, healthcare professionals and financial advisers
- Continue to use innovation to ensure Discovery Life and PruProtect clients are adequately insured
- Enhance Discovery Life's Group Risk offering for corporate employers
- Encourage consumers to increase their level of savings through innovative savings and investment products
- Continue Discovery Invest product innovation to offer investors greater value and protection
- Introducing innovative products to the Chinese market
- Create an engaging online and social media presence for PruHealth clients

> We manage risk in our business according to the Enterprise Risk Management Framework. Our Group Risk Management, Group Compliance and Group Internal Audit functions oversee how this framework is applied and monitored in Discovery.

Read our full Risk Management Report on page 107.

What we have done during the past year

All categories of risk are important for the sustainability and continued performance of our business. During the past year our Sustainability Division completed a stakeholder engagement process to identify and understand risks that relate specifically to sustainability issues for Discovery. From this process, we were able to develop a sustainability performance management system that enables us to monitor our sustainability performance against our strategic priorities.

Our risks and what we do to manage them

Type of risk for our business	What we do to address this risk
Strategic risk Strategic risk refers to the negative impact poor business decisions, improper strategy implementation or lack of responsiveness to industry changes may have on the current or prospective earnings of Discovery	• We manage strategic risk according to Discovery's Enterprise Risk Management Framework • Strategic goals, objectives, corporate culture and ethics are communicated and applied throughout the business • Strategic initiatives are supported by sound due diligence and strong risk management processes and systems
Insurance risk This type of risk relates to the inherent uncertainty of insurance liabilities, such as frequency, amount and timing. It includes adverse mortality, morbidity and lapse experience	• Mismatching and market risk is managed by recognising premium and benefit increases on insurance contracts. This is in line with the lowest increase option available to the policyholder that will not require any other changes of premiums relative to benefits • Lapse risk is managed through new product offerings; commission clawbacks are implemented where a policy lapses within the first two years of inception; maintaining client relationships to establish reasons for cancellations and to possibly conserve the policy; reinsurance; and lapse experience monitoring on a monthly basis • Mortality and morbidity risk is managed through product design and pricing. Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk
Financial risk The risk that Discovery will be unable to meet its expected level of profitability or its financial obligations. This type of risk is primarily a function of credit, market, liquidity and financial performance risks	• We have appointed reputable external asset managers to manage our investments • The Actuarial Committee reviews the overall matching of shareholder and policyholder assets • The Shareholders Assets Investment Committee (SAIC) is a sub-committee of the Executive Committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The SAIC also sets exposure limits for exposure to individual counterparties • Discovery periodically engages with external consultants to review past investment decisions • The Investment Committee is a sub-committee of the SAIC and meets monthly to make practical decisions regarding Discovery's liquidity and foreign currency exposure
Operational risk This is the risk of loss caused by poor or failed internal processes, people and systems. It may also be caused by external events	• We manage this risk through an Operational Risk Management Framework. This framework aims to focus the business on key success and risk factors. It also ensures that risk management is integrated into line management • Our Group Internal Audit, Group Compliance, Legal and Group Risk Management functions oversee the management of operational risk throughout the business

Type of risk for our business	What we do to address this risk
Business continuity risk This risk relates to Discovery's inability to recover operations in the event of unexpected disruptions and disasters	• Through business continuity management we assess business needs and identify weaknesses • We also ensure that current business continuity strategies and plans are tested yearly and are up to date
Legal risk This is the risk of loss relating to ambiguity, errors and omissions in contracts resulting in the inadequate protection of the interests and assets of Discovery, or the exposure to possible claims against the business	• We have control measures in place to monitor new legislation and to identify and manage significant legal risks
Information security This risk relates to a loss of data or unauthorised access to confidential data	• We have control measures in place to protect Discovery's information assets and to ensure the confidentiality, integrity and availability of Discovery's information • Our Information Security Policy defines our objectives for managing information security and outlines the processes needed across the business to ensure the security of information
Compliance risk Compliance risk is the risk of legal or regulatory sanction, material financial loss or damage to reputation. This may happen if a business does not obey legislation, regulations, rules, organisation or industry standards and codes of conduct	• Discovery's Compliance Division supports the various operational areas to identify and manage their compliance risks
Fraud and security risk This risk relates to issues that impact the safety of our clients, employees and assets. Fraud is a risk for our business as it is a major contributor to rising healthcare costs in the medical scheme industry, as well as the life assurance industry	• Discovery's Code of Conduct stipulates ethical behaviour of all managers and directors, including non-executive directors, employees and third-party suppliers • We have a zero-tolerance approach to any form of fraud, dishonesty or betrayal of trust. Employees involved in fraudulent activity will face disciplinary action, dismissal and even criminal charges • Our Forensic Services Department is responsible for managing the risk of fraud in Discovery. This department monitors and manages all incidents of internal and external fraud and corruption • We run an active anti-fraud programme that includes an anonymous fraud tip-off line that is open to employees and the general public • All new employees receive information about Discovery's Code of Conduct and fraud policy during induction
Macro-economic, social and environmental risk This risk refers to a range of issues that may impact the sustainability of Discovery. It may include internal and external stakeholder issues, as well as social and environmental risk	• Discovery's Sustainability Division oversees internal and external stakeholder engagement and the identification of factors that impact the sustainability of our business • Performance is monitored against targets set by each business area

"Our business impacts various stakeholder groups such as employees, clients, suppliers, financial advisers and the regulators. The way we interact with our stakeholders, and importantly, how we conduct our business, are key aspects for Discovery's long-term sustainability."

In the normal course of business, we regularly engage with and talk to our stakeholders. From time to time, we may also speak to selected stakeholder groups on specific issues. King III promotes the 'stakeholder inclusive model' where the Board considers the legitimate interests of all stakeholders when making decisions in the best interests of the company. This may mean integration and a trade-off between the interests of different stakeholders at different times, to meet the objectives of the company. The Board is responsible for ensuring that the company's strategic objectives are met within a framework of sustainable development and corporate responsibility.

What we have done during the past year

We reported in our Annual Report for 2010 that we started work on understanding sustainability for Discovery. Working with Incite Sustainability and Global Carbon Exchange, we started a dialogue process with all internal stakeholders. Following these dialogues, we identified the key sustainability issues that are important for Discovery. Our Transformation and Sustainable Development Committee, a sub-committee of the Board, as well as the Executive Committee, reviewed and gave input on the key issues.

Our next step was a change management programme aimed at broadening the scope and understanding of sustainability issues relating to our day-to-day business operations. As part of this change management programme, we started an internal stakeholder engagement process to talk to our employees about sustainability and what this means to Discovery. This included Future Visioning workshops with the senior leadership team at Discovery, as well as dialogues on risk. In addition to these workshops, we also started a sustainability change agent network that consists of employees from all business areas in Discovery to act as sustainability champions throughout the business. This process assists us in embedding sustainability into the organisation.

A framework to manage our engagement with our stakeholders

During the year, we started work on a framework to manage our relationships and engagement with all stakeholders. The framework has been developed using an internationally accepted standard, the AccountAbility AA1000 Stakeholder Engagement Standard. The AA1000SES assists companies in detailing the following:

- Main objectives
- Key material issues
- Identified stakeholders
- Methods of engagement
- Monitoring of engagement
- Review of engagement.

The draft stakeholder engagement framework was circulated for completion and comment to all relevant people in the business. This framework has been accepted. We now aim to develop the stakeholder engagement process further by following the steps outlined in the AA1000SES guidelines.

Our stakeholder engagement framework will ensure that we understand our stakeholders' concerns and needs, and that we take into account their interests in our decision-making process.

A priority for our Sustainability Division is to investigate a system to monitor engagement throughout the business.

Stakeholder group	How we engaged with our stakeholders during the past year	Examples of outcomes from stakeholder engagement
Our clients We provide financial services and products to nearly five million clients in South Africa, the UK, USA and China. We impact people's lives in the areas of healthcare, life assurance, short-term insurance, investment and savings	• Member-based research and surveys • Outbound surveys and interviews • Complaint and escalation process • Discovery website • Social media (Facebook and Twitter) • Discovery magazine • Electronic newsletters • Claims statements • Corporate Health Managers who regularly meet with employers • Employer website and call centre • Year-end revision launches and communication • Presentations to employees of companies • Discovery Invest Leadership Summit • Discovery Invest Moneyweb seminars • Regular product and benefit updates	• Our regular member surveys and research help us to assess our service to our members and to identify any areas for improvement. For 2012, we have launched a series of initiatives aimed at helping members navigate the healthcare system. This includes HospitalXpress – an online tool that makes hospital admission more convenient and seamless for members. This service offers express pre-admissions and online tools to authorise admissions and confirm cover
Our employees The talent, skills, expertise and drive of our employees are all factors that make our business innovative and competitive. Our employees are critical to our continued growth and success	• Discovery intranet • Employee roadshows • Discover internal magazine • Stay and exit interviews • Leadership roadshows and conference • Company-wide performance appraisals • Electronic newsletters • Annual Leadership Conference • Employee engagement survey	• To achieve our goal of retaining talented, high-performing employees at Discovery, it is essential that we understand what issues are important to them and how they feel about working at Discovery. In February 2011, we ran the Corporate Leadership Council's employee engagement survey across the company. This measured employees' rational and emotional commitment to Discovery, as well as their intent to stay. The online survey is used globally and results can be compared to global, South African and Discovery benchmarks
Healthcare professionals Healthcare professionals in South Africa and globally are critical to the sustainability of healthcare industries. The continued development, growth and provision of healthcare services have a direct impact on our health business	• Thought Leadership Summit • PracticeXpress • Key account managers • Engagement with representative bodies on specific industry issues • Articles in medical journals	• PracticeXpress is aimed at not only improving the quality of care a patient receives within the healthcare system, but also gives healthcare professionals an integrated view of a patient's medical history. It also reduces the administrative burden on doctors by allowing a seamless integration of downstream care

Stakeholder group	How we engaged with our stakeholders during the past year	Examples of outcomes from stakeholder engagement
Industry bodies, regulators and government The industries in which we operate and the regulators that govern our industries are important stakeholders to us. We have a responsibility to engage with the regulators and industry representatives on key industry issues	• Regular meetings and engagement with regulators, including the National Credit Regulator, Financial Intelligence Centre, the Council for Medical Schemes, Department of Trade and Industry, Financial Services Board in South Africa, the Association of Savings and Investments of South Africa (ASISA) and the Financial Services Authority in the UK • Active participation in industry bodies and debates	We actively engage with the Government and regulators to contribute to strategic development initiatives in our industries. This included: • Participation in ASISA forums about various changes in the regulatory environment • Participation in industry forums on the Protection of Personal Information Act • Continuing our participation in the industry regulatory workshop, the Solvency Assessment Management project • Continuing our work with industry stakeholders to develop an industry code that will address the requirements of the Consumer Protection Act. • Continuing our support for the Prescribed Minimum Benefits project to finalise the Code of Conduct
Financial advisers We work with independent financial advisers and Discovery proprietary distribution channels to ensure proper financial advice to our clients	• Discovery Insights Series • Product launches for Discovery Health, Discovery Invest, Discovery Insure and Discovery Life • Supporting marketing material and tools • Ongoing communication through electronic newsletters and website articles • Intermediary Advisory Forum • Training material and support • Continuous Professional Development days that form part of quarterly training • Recognition for high performers in Discovery's proprietary distribution channels	• The Discovery Insights Series is a series of regular workshops on relevant industry topics. These workshops are aimed at equipping financial advisers to provide high-quality advice and service on complex financial products • A range of additional knowledge courses offered by our training department • We introduced development consultants to ensure business consultants are best equipped to market our products • Recognition programmes aim to increase new business and quality service to clients
Investors and analysts Investors and analysts are important stakeholders to us, as their perception of our performance could impact how the market views Discovery	• Annual and interim results announcements • Integrated Annual Report • Investor relations website • Investor one-on-one meetings with institutional investors and sell-side analysts after results announcements • Investor roadshows	• We received the Investment Analyst Society award for "Best Company Presentation to the Society" for companies with a market capitalisation above R20 billion • We received the Nkonki Financial Mail Integrated Reporting survey award. Discovery's Integrated Annual Report was rated second of the 15 financial sector company reports
The media The media has an important role to play in public debates about healthcare, financial services and wellness. Our engagement with the media helps us to build necessary relationships	• Editor forums and round-table discussions • Media lunches • Discovery Health Journalism Awards • Discovery Rhodes Centre for Health Journalism	• The Discovery Health Journalism Awards help to develop health reporting in South Africa – a critical factor for encouraging health debate in South Africa. During the year we awarded the second group of awards to journalists • Specialist courses offered in health journalism as part of our partnership with Rhodes University support the objective of the Discovery Health Journalism Awards

Stakeholder group	How we engaged with our stakeholders during the past year	Examples of outcomes from stakeholder engagement
Small to medium enterprises (SME) and entrepreneurs We have partnerships with small and medium businesses, as well as entrepreneurs that form part of our supply chain. Through our enterprise development investments, we help develop and grow young and talented entrepreneurs	• Working with Enterpriseroom, a specialist enterprise development consultancy, to develop our enterprise development programme further • Support for incubators to help develop entrepreneurship in South Africa	• Discovery has provided R3 million to the Awethu Project, an initiative launched in April 2010 to develop entrepreneurial potential in young South Africans from poor communities
Community and public healthcare organisations We are able to use our resources to help support and develop our communities in the area of healthcare. We currently provide ongoing support to 32 community healthcare organisations. We have provided grants and scholarships for medical specialist training to 143 healthcare professionals	• Symbolic hand-over meetings with community projects and one-on-one meetings • Meetings with deans and medical schools for the Discovery Foundation • Discovery Foundation Alumni Conference, aimed at giving recipients the opportunity to build relationships and networks with their peers • Discovery volunteers provide long-term support for community projects through the Adopt a Project programme	• We hosted the fourth Discovery Foundation Alumni Conference in June 2011 • The Discovery Foundation has commissioned Health and Development Africa (Pty) Ltd to conduct a mid-term evaluation of the Foundation Awards programme. The outcomes of this report will contribute to the Foundation's strategic direction for the next five years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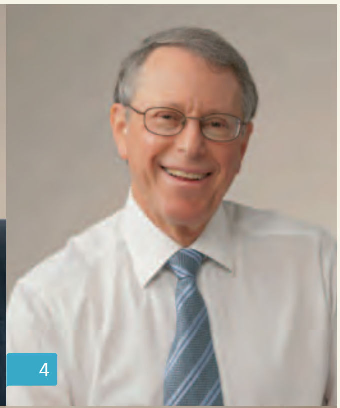
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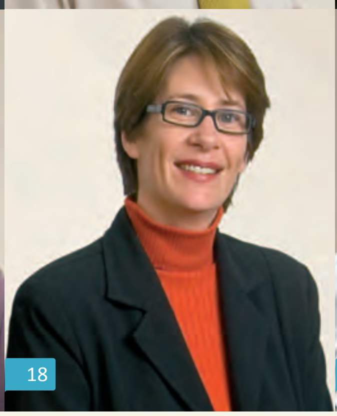
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1 Dr Brian Brink (59)
BSc (Med), MBBCh, DA (SA)
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2004
Brian is a respected thought-leader in the health arena, advising companies on HIV and AIDS management in the workplace. He is the Chief Medical Officer at Anglo American.
- ***Expert health and medical knowledge***
- ***Understands sustainable development issues***

2 Peter Cooper (55)
BCom (Hons), HDip Tax, CA(SA)
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2008
Peter is the Chief Executive Officer of RMI Holdings. He is a chartered accountant by training.
- ***Financial expertise***
- ***Corporate and structured finance management***

3 Jan Durand (43)
BAcc (Hons), MPhil, CA(SA)
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2011
Jan is a qualified chartered accountant and is currently the Chief Investment Officer of Remgro Ltd.
- ***Financial expertise***
- ***General business management experience***
- ***Investment and corporate finance expertise***

4 Steven Epstein (68)
JD (Columbia University Law School), BA (Tufts University)
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2005
Steven is the founder and senior partner of Epstein Becker & Green, one of the largest US-based health law firms.
- ***Specialist legal expertise in the area of healthcare***

5 Richard Farber (40)
BCom (Hons) CA(SA) FCMA
FINANCIAL DIRECTOR, EXECUTIVE DIRECTOR, APPOINTED IN 2009
Richard is a chartered accountant by training and is currently the Financial Director of Discovery.
- ***Corporate finance and accounting expertise***
- ***Strategic finance expertise***

6 Adrian Gore (47)
BSc (Hons), FFA, ASA, MAAA, FASSA
GROUP CHIEF EXECUTIVE OFFICER, EXECUTIVE DIRECTOR, APPOINTED IN 1999
Adrian is a qualified actuary and founded Discovery in 1992. He is currently the Group Chief Executive Officer of Discovery.
- ***Strategic and visionary leadership***
- ***Actuarial expertise***
- ***Entrepreneurial and forward-thinking***

We provide detailed CVs of all directors on page 98 of this report.

7 Monty Hilkowitz (71)
FIA
CHAIRPERSON AND NON-EXECUTIVE DIRECTOR, APPOINTED IN 2002
Monty is involved in investment management, financial services and insurance interests in several countries.
- ***Actuarial expertise***
- ***Strategic business leadership***
- ***Entrepreneurial experience***

8 Hylton Kallner (36)
BEconSc, FFA, FASSA
CHIEF MARKETING OFFICER, EXECUTIVE DIRECTOR, APPOINTED IN 2010
Hylton qualified as an actuary from the University of the Witwatersrand. He is currently the Chief Marketing Officer for Discovery.
- ***Actuarial expertise***
- ***Strategic business management experience***
- ***Marketing and distribution expertise***

9 Neville Koopowitz (47)
BCom, CFP
CHIEF EXECUTIVE OFFICER: PRUHEALTH, EXECUTIVE DIRECTOR, APPOINTED IN 1999
Neville joined Discovery as Marketing Director in 1996 and has played a key role in defining and building the Discovery identity. He is currently the Chief Executive Officer of PruHealth.
- ***Healthcare management experience***
- ***Strategic business management experience***
- ***Marketing and distribution expertise***

10 Dr Vincent Maphai (59)
BA, BA (Hons), M Phil, D Phil, Advanced Management Program (Harvard)
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2005
Vincent is the Director of Corporate Affairs and Transformation at the SAB. He is also the Chairperson of the Discovery Foundation.
- ***Strategic business management expertise***
- ***Understands transformation issues in South Africa***

11 Herschel Mayers (51)
BSc (Hons), FIA, FASSA
CHIEF EXECUTIVE OFFICER: DISCOVERY LIFE, DISCOVERY INVEST AND PRUPOTECT, EXECUTIVE DIRECTOR, APPOINTED IN 2000
Herschel joined Discovery in 2000 to set up and launch its life insurance arm, Discovery Life. He is currently the Chief Executive Officer of Discovery Life, Discovery Invest and PruProtect.
- ***Strategic business management expertise***
- ***Actuarial expertise***
- ***Understands the individual and group life industries***

12 Vhonani Mufamadi (42)
BA (Law), LLB
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2010
Vhonani is the founder and Chairperson of Muvoni Investment Holdings that has over the years invested in various sectors including engineering (electrical and telecommunications), information technology and biometrics.
- ***Legal expertise***
- ***Investment and entrepreneurial expertise***

13 Dr Ayanda Ntsaluba (51)
MBChB, MSc (Lond), FCOG (SA)
EXECUTIVE DIRECTOR, APPOINTED IN 2011
Before joining Discovery in July 2011, Ayanda served as Director General of the Department of International Relations and Co-operation. Before this, he was Director General of the Department of Health.
- ***Understands health policy in South Africa***
- ***International relations expertise***
- ***Strategic planning expertise***

14 Les Owen (62)
BSc (Hons), FIA, FPMI
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2007
Les is a qualified actuary with extensive experience in international insurance markets. He was previously the Chief Executive Officer of AXA Asia Pacific Holdings Limited and AXA Sun Life in the UK.
- ***Understands international insurance markets***
- ***Actuarial and risk management expertise***

15 Alan Pollard (42)
BSc (Hons), FIA, FSSA
CHIEF EXECUTIVE OFFICER: DISCOVERY VITALITY, EXECUTIVE DIRECTOR, APPOINTED IN 2007
Alan is a qualified actuary and is currently the Chief Executive Officer of Discovery Vitality. Previously he was responsible for product research and development for Discovery Health.
- ***Actuarial expertise***
- ***Understands product research and development***
- ***Expertise in wellness***

16 John Robertson (63)
BCom, CTA, CA(SA), HDip Tax
CHIEF INFORMATION OFFICER, EXECUTIVE DIRECTOR, APPOINTED IN 1999
After a career in IT consulting, John joined Discovery at the start of the company to develop its IT strategy, systems and finance infrastructure. He is currently the Chief Information Officer for the Discovery Group and is also responsible for the Group Risk and Compliance functions.
- ***Understands information technology strategy***
- ***Expertise in systems development, e-commerce and information technology networks***
- ***Understands business risk and compliance***

17 Sonja Sebotsa (39)
LLB (Hons), MA
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2005
Sonja is the founder and principal partner in Identity Partners, an investment firm, and has extensive experience in corporate advisory work. She was previously a vice president in Deutsche Bank's investment banking division. She was appointed to the Discovery Board in 2005.
- ***Legal expertise***
- ***Experience in investment banking and corporate finance***

18 Tania Slabbert (44)
BA, MBA
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2008
Tania is the Chief Executive Officer of WDB Investment Holdings and has extensive experience in investments. Her focus area is to facilitate the socio-political and economic development of women in South Africa.
- ***Investment expertise***
- ***Understands economic and socio-development issues***

19 Barry Swartzberg (46)
BSc, FFA, ASA, FASSA, CFP
GROUP EXECUTIVE DIRECTOR, APPOINTED IN 1999
Barry is one of Discovery's founders and contributed to the evolution of the group's marketing approach, risk management capability and operations. He was previously the Chief Executive Officer of Discovery Health. He is currently Group Executive Director of Discovery, responsible for international operations.
- ***Actuarial and risk management expertise***
- ***Understands the healthcare environment***
- ***Expertise in business development and international markets***

20 Sindi Zilwa (44)
BCompt (Hons), CTA, CA(SA), Advanced Taxation Certificate, Advanced Diploma in Financial Planning, Advanced Diploma in Banking
NON-EXECUTIVE DIRECTOR, APPOINTED IN 2003
Sindi is the Chief Executive Officer of Nkonki, a chartered accountancy firm. She is a thought leader in the areas of business, entrepreneurship and transformation.
- ***General business management expertise***
- ***Accounting expertise***
- ***Understands transformation and sustainable development issues***

"The past financial year continued to be a highly complex and challenging one, characterised by economic uncertainty, considerable policy debate, and volatile markets both locally and internationally. Against this backdrop, Discovery's financial performance exceeded expectation, and considerable progress was made in relation to all identified strategic priorities for the period."

While the economic crisis deepened for many countries over the period and the fears of a global "double dip" recession intensified, the most notable events related to the changes taking place at a geo-political level, with the Arab Spring, London riots and Occupy Wall Street movement showing, to varying degrees, the power of individuals to bring about rapid and profound change.

From an economic perspective, the global recovery continues to rely on the growth of emerging economies, and South Africa's inclusion in the BRICS group of decision-making countries – Brazil, Russia, India, China and South Africa – provides us with a unique opportunity to assume a leadership position on the world stage. Discovery's approach to this opportunity is to build a best-in-class global organisation that focuses on a combination of meeting clients' needs through innovations that add value and provide unique protection, as well as by demonstrating certainty and stability through our financial strength.

Within this challenging environmental context, Discovery continued to focus on a number of key strategies to deliver value to our members, and profitable, quality growth across the business:

1. Financial and capital strength, including strengthening of the capital base
2. Further entrenchment of the market position of Discovery's existing businesses
3. Bringing about scale, profitability and relevance of Discovery's emerging businesses
4. Development of new market opportunities, both in South Africa and abroad.

Significant progress was made in relation to all of the strategic thrusts, with strong performance generated by Discovery's existing businesses of Discovery Health, Discovery Life, Vitality and DiscoveryCard, the generation of maiden profitability from the emerging businesses of PruHealth, PruProtect and Discovery Invest, and the expansion of the business model both in South Africa (through the launch of Discovery Insure), and internationally (through the launch of HumanaVitality in the US, and the acquisition of Standard Life Healthcare in the UK). From a financial perspective, performance exceeded expectation, with strong growth in earnings and embedded value, and the quality of the business manifesting in strongly positive experience variances.

Financial and capital strength

Over the past few periods, Discovery has engaged in a broad capital optimisation and management programme in order to enhance and diversify our capital base, as well as ensure capital efficiency. As part of this programme, a facility was created during 2011 to raise non-cumulative, non-participating, non-convertible, voluntary-redeemable preference shares, as required. While Discovery is currently well capitalised and has no immediate need for additional capital, the preference share facility makes available to Discovery efficient and diversified capital for strategic growth opportunities, as well as to support growth in Discovery's existing businesses. A placement was undertaken during July 2011 and was well received, with R800 million of the preference shares being placed. In addition to this placement, a number of other capital initiatives have been implemented across the Group, most notably in Discovery Life and PruProtect, to ensure maximum capital efficiency. The combination of these initiatives places the Group in a strong position to experience continued growth without recourse to additional capital.

From a financial perspective, performance over the period exceeded expectation, with normalised profit from operations growing by 32% over the comparative period. The performance was supported by Discovery's unique integrated model, which allows for ongoing product innovation across the Group, motivates appropriate behaviour among members to deliver enhanced actuarial outcomes, and supports strong new business growth of higher margin and quality. The manifestation of this model has been compound growth in normalised headlines earnings per share of almost 30% per annum over the past decade.

Entrenchment of the market position of Discovery's existing businesses

Discovery's existing businesses – Discovery Health, Discovery Life, Vitality and DiscoveryCard – performed well during the period, with the focus on quality manifesting in strong embedded value growth, improved new business margins and significantly positive experience variances. In aggregate, Discovery's existing businesses generated R5.7 billion of new business annualised premium income, operating profit of R2.9 billion, and covered almost three million unique members.

Discovery Health's primary role is to ensure that the members of the schemes under its management have access to quality healthcare on a sustainable and cost-effective basis. This requires the management of clinical, actuarial, technological and regulatory challenges. Discovery Health's primary strategy has been to use its scale and expertise to create a differentiated healthcare system for its members, and it has invested significantly in its assets to fulfil this responsibility. This strategy has translated into continuing strong membership growth, low and declining lapse rates, the roll-out of enhanced services for members that provide greater coordination of care within the healthcare system, and most importantly, a lower rate of medical inflation for the Discovery Health Medical Scheme compared to competitor schemes in the market. From a regulatory perspective, the period under review saw the National Health Insurance (NHI) policy debate mature considerably, manifesting in the release of the Department of Health's Green Paper. Discovery Health strongly supports the roll-out of an NHI system, and believes that healthcare reform is needed to ensure a comprehensive healthcare system for all South Africans. The policy proposals set out are rational, appropriate and bold, and we are confident that if properly executed, South Africa's healthcare system will be strengthened as a result.

Discovery Life's performance over the year was excellent. Given the scale of the business and its rapid growth, its primary strategy during the year was to focus on the quality of the business. The success of this strategy manifested positively in improved new business margins, reduced lapse rates, and a focus on innovation to meet the complex needs of the Discovery Life client base. From a lapse perspective, new work undertaken by Discovery Life clearly demonstrated the impact of the Vitality product integration in mitigating lapse risk. Over the period the rate of policy lapsation reduced to within the level of the long-term lapse assumption inherent in the embedded value calculation. In addition, during the period, a number of new products were launched, most notably, AccessCover™, which allows the policyholder to cash in life cover during life-changing events such as dread disease and disability in order to meet liquidity needs.

Vitality's performance was excellent and its role in product integration and motivating appropriate behaviour change was further enhanced during the period under review. The period also saw Vitality continue its work in understanding the academic and scientific link between Vitality engagement and mortality and morbidity experience. It is this significant and continually evolving knowledge and capability that has been used to underpin Discovery's local and international businesses, as well as its new business expansion. The positive insurance dynamics brought about by the Vitality-integrated model continue to resonate strongly in many markets, and during the period, Discovery used the Vitality chassis to underpin its expansion into the USA with HumanaVitality, support new product design in the UK, and expand into the short-term insurance market in South Africa.

The DiscoveryCard performed pleasingly during the period under review and reflected both the quality of Discovery's client base and the improving economic environment. The DiscoveryCard captured 8.9% of the point-of-sale market share and the quality of the credit experience remained above expectation. In addition, the DiscoveryCard is providing a further integration platform for the Discovery Insure product.

Scale, profitability and relevance of Discovery's emerging businesses

Discovery's emerging businesses (PruHealth, PruProtect and Discovery Invest) performed better than expected, with all three generating profits and positioning themselves strongly for profitability going forward. The scale of these emerging businesses is demonstrated by the fact that their combined run rate of new business at the end of the financial year now accounts for almost a third of Discovery's new business.

The year under review was a defining one for Discovery's UK businesses despite the particularly difficult economic environment. In the UK, our strategy has been to implement Discovery's successful integrated model to offer consumers unique value and protection in a highly competitive and commoditised market, similar to what has been achieved in South Africa. The attainment of this strategy was enhanced during the period through the acquisition of Standard Life Healthcare, which brought significant scale to PruHealth, as well as the buy-up to a 75% shareholding in both PruHealth and PruProtect, which allows Discovery to accelerate the roll-out of its Vitality-integrated strategy in the UK. From a healthcare perspective, PruHealth's performance exceeded expectation, with the successful commencement of the Standard Life Healthcare integration programme, significant progress being made in relation to the loss ratio and expense roadmaps, and the roll-out of a best-of-breed product range. With regards to PruProtect, performance was exceptional across all metrics, with the company attaining maiden profitability during the last six months of the financial year, high levels of new business market share, and continuing innovation taking place around implementing the more mature Discovery product and capital model. Importantly, the success of PruProtect serves as validation of the Vitality-integrated life insurance strategy in international markets.

Discovery Invest's primary strategy is to provide products and services that enable its investors to take advantage of an open architecture investment environment, while being protected against volatile markets or poor investment choices. A fundamental test of Discovery Invest's value proposition is to consider the performance of its products since inception, a perfect test of efficacy given market volatility and the financial crisis. A test in aggregate of this approach is that a hypothetical client investing in a basket of Discovery Funds would have outperformed the equivalent benchmark of funds by a cumulative 7.1% over four years, with the unique Discovery Invest features adding a further cumulative 5.5%. During the period, Discovery Invest continued to launch new products, predicated on the same philosophy. The cumulative effect of Discovery Invest's increasing scale, competiveness, unique product propositions and fund choices led to strong profitability, a significant increase in new business margins, and excellent growth in funds under management.

Development of new market opportunities

Underpinning Discovery's performance is its integrated business model, of which Vitality forms the basis. During the period, Discovery did considerable work in furthering its understanding of the effect of consumer engagement and wellness on health and life insurance. In both cases, Vitality creates better selection, more accurate pricing, better mortality and morbidity, and superior selective lapsation. The effect of this in both health and life insurance is significant as it not only provides greater actuarial stability but also adds unique value to Discovery's customers. During the period under review, work was done on the Vitality model to ensure its repeatability in markets such as China, the USA and the UK. In addition, the model was used as the basis for Discovery Insure, applying the principles of behavioural economics to the science of driving, resulting in significant value for consumers. While still embryonic, this model forms the foundation for the internationalisation of Discovery's assets and business.

The strategic vision of Ping An Health is to create the premier specialist health insurer in China, offering innovative, consumer-centric products and services. During the period under review, the Ping An Health team made significant progress in operationalising a number of key areas of the business, including product development and technical marketing, rolling out of the distribution network, and transferring Discovery Health's risk management systems and operational IP to China. Although still early on in the joint venture, Ping An Health has gained emerging traction, with the business covering over 300 000 lives, offering services to 1 500 Group clients, and generating revenue of over R155 million for the six-month period to June 2011. Ping An Health will continue to build off the strong foundation that has been created in the coming period.

Discovery's new international partnership, HumanaVitality, which is a joint venture with the US health insurer Humana Inc., has been exceptionally well received, with the business being launched just six months from commencement. Across HumanaVitality and The Vitality Group, Discovery had over 680 000 members committed on Vitality in the USA at the time of printing the report. The Vitality Group continues to develop a strong foundation to create a meaningful business, with a maturing systems and operations infrastructure to support scale, an enhanced wellness and reward network, and continuing high levels of member engagement.

Furthermore, the considerable work done to evolve the science of Vitality, coupled with The Vitality Group's proactive thought leadership drive to showcase the Vitality programme, led to strong external recognition for the Vitality model. In this regard, one of The Vitality Group's clients, Alcon Laboratories, was awarded the C. Everett Koop National Health Award for its use of Vitality in promoting wellness. This is a highly prestigious award that recognises outstanding workplace health improvement programmes that demonstrate the ability to improve health risk status and reduce costs. This esteemed award goes a long way in establishing Vitality's credibility in the market.

Discovery Insure's strategic rationale for entering into short-term insurance was to leverage its behavioural economics experience to encourage good driving behaviour and improved road safety. The result is a telematics-enabled product construct that allows for tailored driver feedback and education on a driver's unique driving style and patterns, coupled with a dynamic reward structure to initiate and sustain good driving.

Concluding thoughts

The work done over the past financial year has ensured that Discovery is both well positioned and capitalised for continued growth and profitability into the future.

It is important for me to state the contribution of Discovery's people in delivering on our vision, and express my deep gratitude to them. Except for the acquisition of Standard Life Healthcare, Discovery has been built entirely organically, which demonstrates clearly the power of a committed and excellent team. In my opinion, the value of an organisation is a direct function of its people, and I look forward to building Discovery with this exceptional team going forward.

"A key differentiator for us is our ability to integrate products across the Discovery businesses. Integration allows us to offer more value to clients as they take up more products with us and is essentially a 'whole-life' offering. The benefit for Discovery is increased customer loyalty and higher margins the longer a client stays with us. It's a unique type of innovation for us."

What were the highlights for you this year?

There was a saying in an old, popular TV-series The A-Team that for me, describes our performance this year: "I love it when a plan comes together".

This is how I think of the last year's performance. All our businesses have come together and the performance across the businesses has been solid. Locally, the Life and Health businesses continued to grow steadily while the younger businesses are performing exceptionally well. I am pleased that PruHealth, PruProtect and Discovery Invest are all profitable.

Another highlight for me this year has been our success in raising R800 million in preference shares – three times more than we expected. For me this is evident of the brand equity and reputation of Discovery. The capital raised puts us in a strong position to invest for future growth in Discovery Invest, Discovery Life and Discovery Insure.

Where could Discovery have performed better?

New business production for Discovery Life was steady; however, I would like to see an improvement here. In Discovery Health we have done good work in the past few years to improve operational efficiencies, but again, this is an area that I believe we can focus more on. In terms of China, we expected it to be slow. Relative to Discovery's pace though, we always feel that we can perform better.

Where do you see growth coming from over the long-term?

I believe that our established businesses will continue to grow. At the same time, our newer businesses should contribute to our long-term growth. I expect China, in particular, to be a key market for us in the next five to 10 years.

In terms of new markets and new businesses, we will continue to look at leveraging our intellectual capability and brand strength in markets where we can have an impact.

What are the key risks and challenges for Discovery?

In healthcare, the severe shortage of skilled healthcare professionals is a serious concern for us. South Africa's healthcare sector needs the relevant infrastructure and resources – especially human resources – to ensure people receive the healthcare they need. For medical schemes working in the private sector, a well-functioning healthcare system is therefore critical. I am optimistic about the work we have done over the past few years with healthcare professionals; not only to ensure quality care for our members, but also to help build a better healthcare system for doctors to operate in. In addition to this, our work over the past few years with the Discovery Foundation and the Discovery Fund is intended to support healthcare delivery in the public sector. The National Health Insurance system will not be as big a risk as I believe there will always be a role for private healthcare. Our ability to innovate and our experience in managing healthcare in a complex regulatory and operating environment will enable us to continue to meet the needs of consumers.

In the Life business, poor mortality and morbidity experiences, as well as lapses are our biggest risk. Vitality has been a key strategy to ensure positive mortality and morbidity experience as well as low lapse rates. It has been proven to have a positive impact on claims while also giving more value to customers. Over the past year we have seen the Vitality engagement levels from Discovery Life customers increase significantly. Practically, we invest in our distribution channels and conservation divisions to ensure we retain clients. Reinsurance structures also protect the business against negative mortality, morbidity and lapse experiences.

In terms of our people, one of our key strengths is the strategic leadership and vision capability in our senior leadership team. The challenge however, is to make sure we keep developing this skill and ability in the next level of leaders. I am optimistic about the development programmes happening in the company to address this challenge. Over the past year for example, we've started the first CEO programme, a mentorship programme targeted at developing talented individuals at an executive and strategic level.

How does the global economic slow-down impact Discovery?

South Africa is more insulated from the effects of the global recession than the USA and Europe. The health insurance industry specifically, is more resilient than other industries because consumers see the value in healthcare cover. Having said that, we do experience the effects of the recession on the ground in the UK and USA. Another concern for me is how the increasing cost of living impacts our employees and the morale in our business.

Can you implement further cost-efficiencies?

Our businesses, especially the Health and Life businesses, are driving efficiencies successfully. There is, however, always the potential to find efficiencies. The main operational cost drivers relate to servicing costs such as call centres and claims processing. There are various ways to drive efficiency in the business. We've put measures in place such as Today's Work Today that focuses on resolving queries in the shortest turn-around time, thereby reducing the number of calls into the call centre. Processing more claims electronically is not only more efficient for the healthcare provider as they receive payment quicker, but it also reduces operational expenses. The same principles apply to PruHealth in terms of driving operational efficiencies.

In the Life business, efficiencies relate more to lapses and claims loss ratios. Servicing in the Life business, especially from financial advisers and conservation, help to keep lapse rates in check. The role of Vitality as a value creator is critical.

Is there potential to pay out higher dividends?

I don't believe there is. Discovery is focused on growth so we invest heavily in our business. We pay 4.5 times cover which is equivalent to approximately 22% of earnings. If we paid a higher dividend it would imply that we have run out of growth opportunities.

Can you sustain your ability to innovate in Discovery?

Yes, I think we can. We have been successful in innovation in three key areas. The first is operational and service innovation where we are able to have a significant impact on our clients and industry because of our scale. An example of this is PracticeXpress, an iPad application that provides support for healthcare professionals. This type of innovation often sets the trend in our industry and eventually becomes an established feature.

A key differentiator for us is our ability to integrate products across the Discovery businesses. Integration allows us to offer more value to clients as they take up more products with us and is essentially a 'whole-life' offering. The benefit for Discovery is increased customer loyalty and higher margins the longer a client stays with us. It's a unique type of innovation for us.

The third type of innovation is the truest form of innovation where a new product or service changes the industry completely. This is harder to get right and also more difficult to get entrenched in the market. An example of this type of innovation is the Discovery Guaranteed Escalator Annuity, the first of its kind in the industry. I think this product has enormous potential in the market.

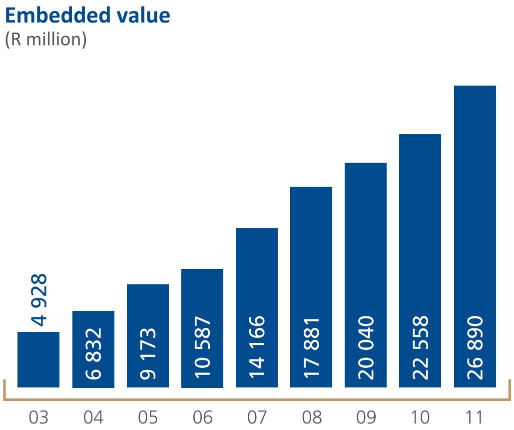
Read more about the Discovery Guaranteed Escalator Annuity on page 68 of this report.


PERFO

During the past year we delivered on key strategies to deliver value for our clients and build a quality and sustainable business for all stakeholders.

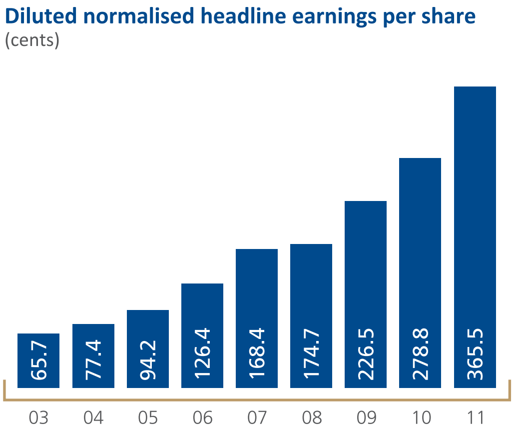
RMANCE

reviews for 2011



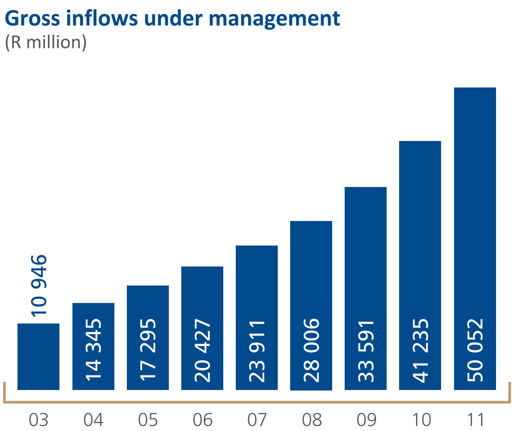
	R million
2011	**26 890**
2010	22 558
2009	20 040
2008	17 881
2007	14 166
2006	10 587
2005	9 173
2004	6 832
2003	4 928

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



	Cents
2011	**365.5**
2010	278.8
2009	226.5
2008	174.7
2007	168.4
2006	126.4
2005	94.2
2004	77.4
2003	65.7

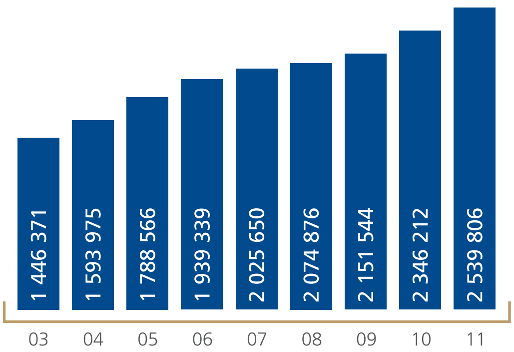
Diluted normalised headline earnings per share measures the sustainable earnings attributable to ordinary shareholders.



	R million
2011	**50 052**
2010	41 235
2009	33 591
2008	28 006
2007	23 911
2006	20 427
2005	17 295
2004	14 345
2003	10 946

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

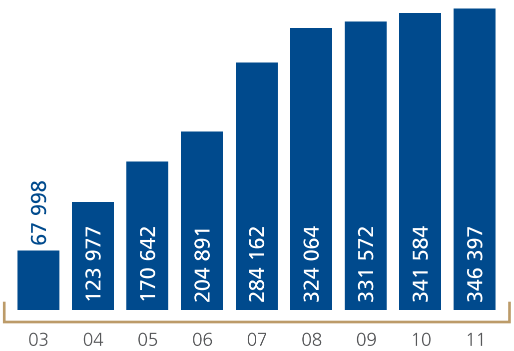
Discovery Health clients
(clients)



	Clients
2011	**2 539 806**
2010	2 346 212
2009	2 151 544
2008	2 074 876
2007	2 025 650
2006	1 939 339
2005	1 788 566
2004	1 593 975
2003	1 446 371

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

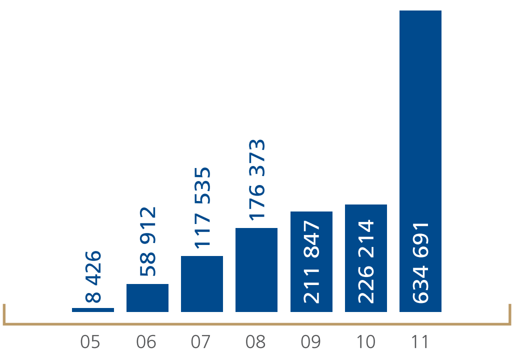
Discovery Life individual policyholders
(clients)



	Clients
2011	**346 397**
2010	341 584
2009	331 572
2008	324 064
2007	284 162
2006	204 891
2005	170 642
2004	123 977
2003	67 998

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

PruHealth clients
(clients)



	Clients
2011	**634 691**
2010	226 214
2009	211 847
2008	176 373
2007	117 535
2006	58 912
2005	8 426

This is the number of lives administered by PruHealth at 30 June. Each life adds to PruHealth's value. The purchase of Standard Life Healthcare on 31 July 2010 resulted in the increase in membership for the 2011 financial year.

> Discovery is constantly working to understand the impact of sustainability issues on our business and in turn, how we impact on the broader society. Sustainability encompasses a full range of governance, economic, social, environmental, and transformation areas that have a clear link to our financial performance.

Read more about Discovery and sustainability in our Report to Society at **www.discovery.co.za.**

We provide feedback on key priorities for 2011 and our progress on page 13 of this report.

Our GRI content index is on page 118.

*Our strategy to ensure sustainable development focuses on using innovation to create and deliver value. We aim to deliver innovative solutions that not only create value for our stakeholders over the long-term, but also extend our core purpose to the broader community.

We view sustainability in terms of risks and opportunities for our business. Financial and non-financial risks to our business include uncertain macro-economic conditions increasing market volatility, the need for social development, impact of chronic diseases of lifestyle and climate change uncertainties. To ensure our business develops in a sustainable manner to the benefit of all stakeholders, we must not only address and manage these risks in a responsible manner, but we must also find innovative ways to turn risks into opportunities. Our framework represents Discovery's approach to sustainability and sustainable development as it relates to our core business and the environment and context in which we operate. The framework has six focus areas based on the material risks and opportunities for the business. It is intended to provide a lens through which we view how our business performs. The framework also provides a means to track and report on our progress. We aim to harness our key competencies, experience and knowledge to address these key areas and make a significant contribution to our employees, clients and broader society.

Our framework for sustainable development

We measure, track and report on our progress against our framework for sustainable development. This framework consists of:

1. A values-based culture of opportunity
2. Strengthening the healthcare system and expanding access to care
3. Improving our clients' financial security and protecting them through innovative products and services
4. Using the science of behavioural economics to drive positive behavioural change in society
5. Promoting a stable society
6. Our environmental responsibility

Our management of sustainability

We approach the management of sustainability in an integrated way:

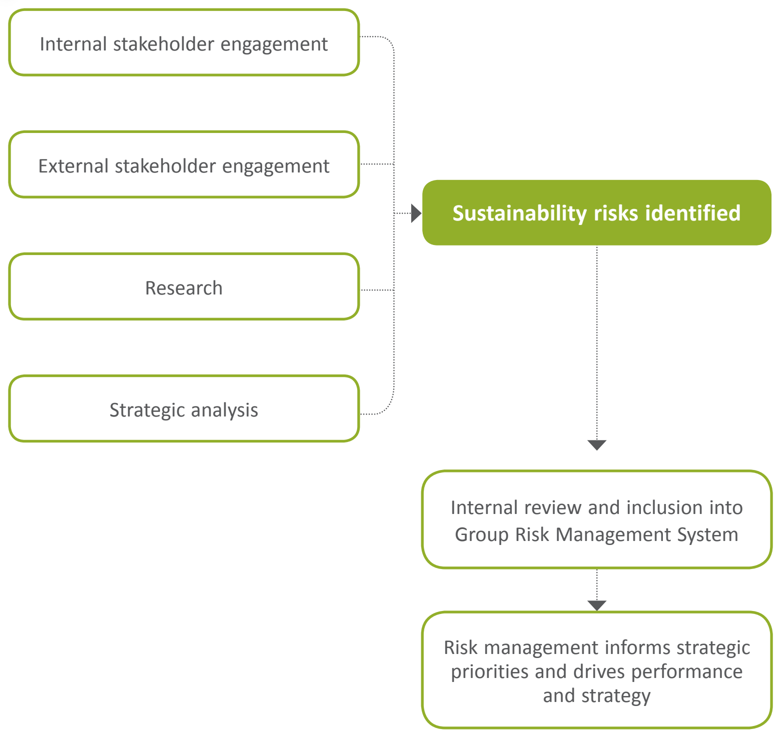
- Discovery's Executive Committee has oversight of the implementation of our sustainable development strategy, and the projects that support this strategy
- Our Transformation and Sustainable Development Committee, a sub-committee of the Board, oversees and monitors the progress against sustainability objectives
- Discovery's Sustainability Division drives, coordinates and implements sustainability initiatives across the business. Various business areas, including Marketing, Discovery People, Risk and Compliance, are responsible for managing the aspects of the framework
- We have assigned a focus head to each sustainability area. The focus head is accountable for objectives and outcomes in the specific sustainability area
- Sustainability change agents in each business area act as sustainability champions by encouraging communication and engagement on sustainability

Risk management

A key aspect of sustainability management is the identification and mitigation of risk. During the past year our Sustainability Division completed an engagement process to identify and understand risks that relate specifically to Discovery's sustainability issues. The identified risks were incorporated into the Group Risk Management System where they will be managed by relevant units within the business.

The risk process assisted us in refining our strategic priorities and projects to mitigate material risks.

Our dialogue around sustainability risks



Our sustainability priorities for 2011

- Engaging with internal and external stakeholders on Discovery's sustainability strategy
- Defining, communicating and implementing our sustainability strategy during the next year
- Discussing and agreeing on sustainability targets for our various business areas

Read more about Discovery and sustainability in our Report to Society at **www.discovery.co.za.**

Our important focus areas during the past year

Engaging with stakeholders on our sustainability strategy

During the year under review, we completed an extensive internal stakeholder engagement process at different levels within our company. This engagement provided insight into the business and assisted in refining our approach to sustainability. It simultaneously assisted in embedding sustainability into the business. No significant concerns were raised through this process. We did not start a process of engaging with external stakeholders as we are currently developing a robust stakeholder engagement process.

Communicating our sustainability strategy

Achieving our sustainability objectives depends on our sustainability framework being firmly entrenched into the business at all levels. To embed sustainability into Discovery, a sustainability change management programme was started during the past year. Our internal stakeholder engagement process formed part of this programme to engage our employees on sustainability and what this means to Discovery. The programme also included the development of a change agent network, consisting of employees from all business areas that act as sustainability champions throughout the business.

Agreeing on sustainability targets across our business

After extensive internal engagement, we have agreed on and implemented specific priorities for each key sustainability area. We have recently completed work on developing a sustainability performance management system. This process will assist us in monitoring, tracking and reporting on our sustainability performance to ensure we are meeting our targets and objectives. We are currently examining key inputs for the system, such as conducting risk assessment workshops, developing guidelines and processes, as well as developing a data management system.

A values-based culture of opportunity and innovation

Our people form an important part of our continued growth and success. Our ability to innovate and build a sustainable business, depends on attracting and retaining the best people. Our priority is to enable our people to develop their full potential through a culture of innovation and performance that embraces diversity and transformation.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Rejuvenating our core values throughout the business	• During the year under review our main focus was on developing our leaders and meeting our transformation goals. Work on a long-term plan to rejuvenate the values of Discovery among all our people was completed. However, implementation across the business only started during the second half of 2011, and will continue over the next year. The process will engage employees at every level of the organisation, with the aim of creating awareness and conversation about the core values of our business	◐
Continuing to develop our leaders	• We recognise the importance of equipping our leaders to lead, inspire and mobilise our people to deliver current business requirements and future business demand. During the year we adopted an integrated and focused approach to ensure that we develop leaders at all levels of the business. The Discovery Leadership Architecture is a company-wide programme that develops leadership skills at staff, team leader, manager and senior manager level	◐
Continuing to embrace diversity in our business to meet our transformation goals	• We are committed to transforming our workforce into an engaged, diverse and representative community. To support the development of talented black employees at executive level, we implemented a targeted mentorship and development programme in 2010. The Discovery CEO programme is aimed at developing high-potential, primarily black senior leaders at Discovery. Our objective is to develop these individuals for possible future executive positions, thereby strengthening leadership capability whilst meeting our diversity objectives	◐
Increasing employee engagement in Discovery and retaining talented employees	• Over the past year, we have increased our employees' engagement in Discovery Prosperity, our internal rewards programme, through regular communication about the programme, how it works and the associated rewards. This exclusive programme aims to encourage employees to improve their skills, look after their health and wellness, and offer their time and skills in the Discovery Employee Volunteer Programme • We started an in-depth talent management programme that is aimed at engaging business heads, executives and managers in identifying high-potential employees as well as future Discovery leaders at senior management levels. Once we have identified talented individuals, they will be appropriately developed and managed to retain their skills and talents within our organisation	◐
Integrating and aligning the Standard Life Healthcare team fully into Discovery	Discovery acquired Standard Life Healthcare, the fourth largest health insurer in the UK, in August 2010. We completed the process of integrating Standard Life Healthcare into PruHealth and Discovery. Some of our projects included: • The first PruHealth Leadership Conference in March 2011 • We hosted employee roadshows at our three offices in the UK • We launched the annual Discovery Star Awards programme through which we recognise top performers across the company	●

Total number of permanent employees by race and gender as at 30 June 2011

	Male					Female					
Occupational levels	African	Coloured	Indian	White	Foreign Nationals	African	Coloured	Indian	White	Foreign Nationals	Total
	0	0	1	18	0	1	0	0	0	0	
Top management	0%	0%	5%	90%	0%	5%	0%	0%	0%	0%	**20**
	13	8	14	108	8	20	6	21	80	6	
Senior management	5%	3%	5%	38%	3%	7%	2%	7%	28%	2%	**284**
Professionally qualified and experienced specialists and	30	13	42	153	4	40	31	51	185	11	
mid-management	5%	2%	8%	27%	1%	7%	6%	9%	33%	2%	**560**
Skilled technical and academically qualified workers, junior management,	228	139	293	356	29	334	223	361	502	30	
supervisors, foremen, and superintendents	9%	6%	12%	14%	1%	13%	9%	14%	20%	1%	**2 495**
Semi-skilled and discretionary	454	180	252	350	22	673	270	290	348	34	
decision making	16%	6%	9%	12%	1%	23%	9%	10%	12%	1%	**2 873**
Unskilled and defined	0	0	0	0	0	0	0	0	0	0	
decision making	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	**0**
	725	**340**	**602**	**985**	**63**	**1 068**	**530**	**723**	**1 115**	**81**	
TOTAL PERMANENT	**12%**	**5%**	**10%**	**16%**	**1%**	**17%**	**9%**	**12%**	**18%**	**1%**	**6 232**
	725	**340**	**602**	**985**	**63**	**1 068**	**530**	**723**	**1 115**	**81**	
GRAND TOTAL	**12%**	**5%**	**10%**	**16%**	**1%**	**17%**	**9%**	**12%**	**18%**	**1%**	**6 232**

Employment equity figures are for South African permanent employees only.

Our priorities for 2012

- Continue to identify, develop and retain talented employees through our talent management programme
- Focus on developing the leadership skills of Discovery people through our Leadership Development Architecture, with a special focus on senior leadership development
- Focus on rejuvenating Discovery's core values throughout all our businesses
- Continue our focus on diversity and transformation
- Encourage the health and wellness of our employees
- Engage employees in our business through our internal rewards programme, Prosperity

CASE STUDY

Building a values-based culture of opportunity by encouraging innovative thinking

In 2010, we launched the Discovery Inspiring Excellence Award aimed at encouraging our leaders to be innovative by either identifying smarter ways of doing things or by coming up with a new idea that would add value to the business. The process is rolled out through a series of challenges throughout the year, and culminates in the selection of an overall annual winner.

Read more about 2010's winning Inspiring Excellence idea and our people in our Report to Society at **www.discovery.co.za.**

Strengthen the healthcare system and expand access to care

As a leader in the South African healthcare industry, we have a responsibility to use our resources to strengthen the healthcare system and broaden access to care. We do this by ensuring the Discovery Health Medical Scheme continues to provide quality healthcare cover on a sustainable basis. We also have the opportunity to make a positive difference in society. For this reason we invest in community projects and partnerships that aim to strengthen and support healthcare delivery in South Africa.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Ensuring premium and benefit stability for the members of the Discovery Health Medical Scheme	During the year under review, we ensured the sustainability of members' benefits. Our average contribution increase for 2011 of 7.9% ensured that we continued providing quality benefits to all members	◐
Using our scale and expertise to improve the quality of care for members	We launched a series of initiatives for 2011 to ensure members receive optimal service and excellent quality care, including the Discovery Trauma Support Service, Discovery MedXpress, the Discovery Integrated Care Unit and the first Discovery Health Member Lounge at the Life Fourways Hospital in Gauteng	◐
Continuing to increase access to quality healthcare for more people	In 2002, Discovery Health launched the KeyCare series, enabling us to offer quality private healthcare access to lower-income earners and specifically the previously uninsured market. Membership has since grown to the equivalent of the third largest medical scheme in South Africa. In 2010, membership grew by 34% to 340 000. Our KeyCare hospital and GP networks now comprise 106 hospitals and over 2 000 GPs	◐
Further developing Vitality product offerings, specifically the wellness programme, for the lower-income market	We launched KeyFIT, a wellness programme for the KeyCare market. It combines Vitality's proven methods of promoting exercise, good nutrition and preventive screening with KeyCare's experience in managing cost-efficient networks to give members access to the facilities, incentives and tools they need to improve their health	●
Engaging with specific stakeholder groups such as the Department of Health and the Government on issues impacting healthcare in South Africa	During the year under review, Discovery continued to engage with various stakeholders on issues impacting healthcare in South Africa. One of these is the National Health Insurance (NHI) policy. We support the roll-out of an NHI system, as we believe South Africa needs healthcare reform to ensure a comprehensive healthcare system for all South Africans. Discovery Health will continue to be part of the engagement process	◐
Implementing three partnerships with the Department of Health and other stakeholders to help strengthen the public healthcare system in key areas of need	We support healthcare delivery in the public sector through public-private initiatives, aimed at meeting key national and provincial health priorities identified by the Department of Health. During the year we implemented three public-private initiatives, including: • A partnership with the South African National Council for the Blind to enable additional cataract surgeries in the public sector • The Operation Abraham Collaborative – a training project in partnership with a group of Israeli surgeons – aimed at training teams of doctors in KwaZulu-Natal on high-volume male medical circumcision. The Minister of Health advocated the promotion of medical male circumcision as part of the national HIV Counselling and Testing campaign launched in 2010, and KwaZulu-Natal was selected as the first province in which to expand the service • A national training programme for nurses to facilitate antiretroviral treatment. This programme was implemented in partnership with the Lung Institute of the University of Cape Town and the Department of Health	●

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Continuing the impact and work of the Discovery Foundation to increase the number of specialists in South Africa	We have increased the number of Discovery Foundation recipients to 143 with a financial commitment of R69 million toward their training	◐
Implementing a national immunisation project in partnership with UNICEF	To support the Department of Health's national programme on immunisation, we are partnering with UNICEF over the next three years to help increase immunisation throughout South Africa. The pilot programme has been rolled out in two provinces – the Eastern Cape and KwaZulu-Natal. The Discovery Fund is contributing R5 million a year to the partnership, launched in April 2011	◐

Our priorities for 2012

- Continue to use innovative product solutions to serve the needs of the lower-income market, and form key strategic partnerships in the area of healthcare to broaden access to care
- Continue to leverage our scale, resources and partnerships to provide access to quality healthcare on a sustainable basis, and impact on the entire industry in a positive way
- Provide benefit and contribution stability across the Discovery Health product range
- Bring down the cost of healthcare for Discovery Health members
- Drive further service and benefit innovations for members, healthcare professionals and financial advisers
- Continue the impact and work of the Discovery Foundation to increase the number of specialists in South Africa
- Increase the focus of the Discovery Fund on nutrition as an important element of primary healthcare
- Roll out an awareness campaign and implement working plans for the Discovery UNICEF Immunise SA programme
- Increase the number of Discovery employee volunteers and improve the quality of engagement with community projects

CASE STUDY

Nurturing medical specialist skills in South Africa through the Discovery Foundation

Launched in 2006, the Discovery Foundation is aimed at supporting healthcare delivery and developing capacity and infrastructure in South Africa's healthcare system. It is an independent trust that invests in the medical training of specialists through a series of awards, grants and scholarships.

To date, we have committed R69 million to the further training and specialisation of 143 specialists and healthcare professionals.

The Discovery Foundation's impact:

- The majority of funding has been allocated to academic and clinical research
- We have provided funding for 32 PhDs in various medical disciplines including Pulmonology, Cardiology, Cardiovascular Medicine, Clinical Pathology, Dermatology, Nephrology, Paediatric Gastroentorology, Psychiatry, Paediatric Pulmonology and Internal Medicine

Read more about the Discovery Foundation at **www.discovery.co.za** and in our Report to Society, also available online.

CASE STUDY

Discovery Fund: providing access to healthcare facilities for communities in need

Through the Discovery Fund, we are committed to investing in public sector health facilities that make it possible for communities that normally rely on public healthcare, to receive quality care. Our investments centre on primary healthcare initiatives, including rural areas, HIV and AIDS programmes, and projects that deal with infectious diseases.

This past financial year, the Fund approved an amount of R11 370 371 for 32 community health projects.

Read the Discovery Health performance review on page 46.

Improve our clients' financial security and protect them through innovative products and services

In the current economic climate we recognise that the financial well-being of our clients is a key priority to ensure the continued growth of our economy. We aim to protect and improve our clients' financial security through innovative products and services that meet their needs.

Key to symbols — ● Priority achieved — ◐ Priority ongoing — ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Focusing on product innovation that leverages the integration capabilities of Vitality to meet the complex and unique needs of the Discovery Life client base	In life assurance, our priority is to continuously provide protection products that meet the needs of our clients at every stage of their lives, while offering them value. During the year, we introduced innovative products aimed at addressing key areas of need: • The 2010 Actuarial Gap study highlights a trend that South Africans are underinsured in the event of a life-changing event. This poses a serious financial risk to clients as they continue to live longer while becoming severely ill more often due to a range of lifestyle-related illnesses. Discovery Life has responded by developing the AccessCover™ product, which gives consumers the choice to cash in a portion of their life cover during a life-changing event such as severe illness and disability • Another product we introduced is the Philanthropy Fund™, which allows our clients to buy additional life cover to meet their specific philanthropic needs. This is in response to an increasing trend for individuals wanting to give more to charity and make a positive difference to society and their community • During the year, we also introduced enhancements to the Discovery Life Income Continuation Benefit product, aimed at providing additional support to policyholders in times of need. We understand that a spouse or child suffering from a severe illness may have a significant impact on a policyholder's ability to earn an income. The Income Continuation Benefit Extender covers the policyholder and family using a range of objective medical criteria	●
For Discovery Invest, continuing our focus on distribution support, product innovation, brand credibility and awareness	Discovery Invest aims to provide products and services that offer investors unique protection against volatile markets or poor investment choices. During the year we launched a new annuity design in the investment market that has all the features to reverse the retirement income downward spiral. The Discovery Guaranteed Escalator Annuity™ enables clients to invest in equity-linked annuities while enjoying a strong guaranteed underpin and financial protection. We also launched the Discovery Classic Flexible Investment Plan, Discovery Best Ideas Fund and Discovery Global Escalator Fund	●

CASE STUDY

Discovery Life Philanthropy Fund™

The Philanthropy Fund™ is an initiative that enables consumers to make a tangible difference to society. Clients can use their Discovery LIFE plan to make a contribution to their choice of charities every five years. They can also leave a lump sum to these charities when they die. Clients can choose an amount of life cover they would like to donate. This is added to their existing Discovery LIFE plans. Up to 70% of premiums for this life cover will then be paid to their chosen charities every five years, based on their engagement in the Vitality programme.

Clients can nominate up to 10 charities from a comprehensive list of approved charities. They can also choose one of three expertly managed Discovery Philanthropy Fund™ portfolios which have a selected range of charities, categorised into three areas of need – education, health and social welfare.

Our priorities for 2012

- Continue to use innovation to ensure consumers are adequately insured and to encourage increased levels of savings
- Continue to focus on managing financial risk for Discovery Life
- Expand access to financial products by developing products targeted at the lower-income market
- Enhance Discovery Life's Group Risk offering for corporate employers

Use the science of behavioural economics to drive positive behaviour change in society

Discovery is acknowledged as a global thought leader in the use of behavioural economics and incentive-based wellness. We aim to use this knowledge to address critical societal problems, such as the increasing risk of chronic diseases of lifestyle and the negative impact this has on society, as well as poor road safety caused by negligent driving behaviour.

Our priority is to leverage our experience in incentivising behavioural change to develop innovative products which create value for our clients and address critical societal problems.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Investing in the international capabilities of Vitality	We have invested in the core capabilities of Vitality with a view to rolling it out in other markets. During the year, we launched a strategic partnership with Humana (in the USA), one of the largest health and supplemental benefits companies with approximately 10.2 million medical members, 7.1 million specialty members, and more than 300 medical centres and 240 work site medical facilities. Read more about The Vitality Group and HumanaVitality on page 90 of this report	◐
Increasing our members' engagement in Vitality to improve the health profile of our client base	Engagement levels in Vitality have increased during the year under review: • Gym membership is now 400 000 • HealthyFood™ activations now exceed 260 000 • HealthyFood™ trolleys purchased since the start of the HealthyFood™ benefit in February 2009: 12.5 million • HealthyFood™ cashbacks paid out since February 2009: R200 million	◐
Continuing our work in understanding and enhancing the science underpinning Vitality	The period under review saw Vitality continue its work in understanding the academic and scientific link between engagement with Vitality and reduced healthcare costs: • In support of the cross-sectional studies published in 2009 and 2010 which found evidence for the link between fitness engagement and reduced hospital costs over time, a longitudinal study published in the American Journal of Health Promotion validated Vitality's ability to get people engaged in complex fitness activities, and sustain this engagement over time • We announced the results of the first Discovery Sunday Times Healthy Company Index. More than 100 companies took part in this survey on employee wellness. Through this process, Vitality obtained additional evidence to validate Vitality Age as a predictor of morbidity risk. Respondents whose Vitality Age was greater than their actual age, experienced 35% more doctor visits in the preceding month, 26% more hospital days in the preceding year, and missed 28% more work days than their peers whose Vitality Age was less than or equal to their actual age	◐
Developing alternate applications of the Vitality model	We entered the short-term insurance market with the launch of Discovery Insure and our incentive programme that encourages better driving, VitalityDrive™, in May 2011. The Vitality model was used as the basis for VitalityDrive™ and applies the principles of behavioural economics to the science of driving	◐

Read the Discovery Life and Discovery Invest performance reviews on page 56 and 64 of this report.

Using the science of behavioural economics to drive positive behaviour change in society

While the Vitality model of rewarding positive behaviour helps improve the sustainability of our business in terms of its cost-containing impact, it also has a positive impact on the broader society.

Children's wellness. Through the Vitality Schools Programme, launched in 2008, we aim to positively influence the health and nutrition of younger generations.

Employee wellness. The Discovery Sunday Times Healthy Company Index was developed to assess and understand the health status of South African employees.

Nutrition. In February 2009, Vitality introduced the HealthyFood™ benefit, a pioneering first for South Africa in encouraging and rewarding healthy nutrition. The benefit offers Vitality members up to 25% cash back on their purchases of over 10 000 healthy foods at Pick n Pay, one of South Africa's leading food retailers. It makes healthy eating more accessible to Vitality members. The introduction of this benefit stemmed from the need to address poor nutrition as a major driver of morbidity and mortality worldwide.

Sponsorships. We use sponsorships as an opportunity to tell more people about the benefits of a healthy lifestyle, engage them in healthy activities, and inform them of the role Vitality can play in helping them improve their health.

Our priorities for 2012

- Leverage Vitality as the global thought leader in wellness and have a positive impact on society in the area of wellness
- Encourage positive behavioural change in the area of health and wellness for our clients through different platforms
- Refine key Vitality benefits to drive higher engagement levels
- Build on the success of the HealthyFood™ benefit to improve the nutrition and well-being of our members, and provide them with more value

Promote a stable society

As one of South Africa's leading businesses, Discovery makes an important contribution to the national economy. South Africa has the potential and ability to become a leading economy and we are committed to contributing to our country's future growth. Businesses have an important role to play to stimulate, develop and sustain growth. With this comes the responsibility to be an ethical and effective leader that has a positive impact on society.

Our priority is to promote a stable society by building a quality and sustainable business, by demonstrating vision, leadership and knowledge and by supporting a culture of confidence and entrepreneurship.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Developing our enterprise development strategy further by identifying more opportunities for partnerships that will benefit our supply chain	During the year under review, we continued to explore enterprise development partnerships. We are working with Enterpriseroom, a specialist enterprise development consultancy, and have developed an enterprise development programme that enables us to build and support black-owned businesses that will not only add value to Discovery, but will also be sustainable and contribute to the South African economy We have also continued our support of incubators to help entrepreneurs unrelated to us. We are a key sponsor of both Endeavor and the Awethu Project. In this way we can contribute to the growth of emerging entrepreneurs in South Africa. At the time of writing the report, we have contributed R15.9 million towards developing small business in South Africa	◐

Our priorities for 2012

- Focus on opportunities to develop a culture of entrepreneurship by using our enterprise development strategy
- Continue to encourage entrepreneurial and business knowledge in South Africa through the Discovery Invest Leadership Summit

CASE STUDY
Promoting confidence in South Africa as an important emerging economy

South Africa has enormous potential to become an important player in the world economy. We have taken the initiative to develop and host the annual Discovery Invest Leadership Summit, which brings some of the world's top visionary thinkers and business and political leaders to South Africa. The summit aims to stimulate business knowledge and encourage pioneering approaches to leadership among South Africa's business community. This is one of the ways we aim to enrich and add value to our stakeholders as well as the broader South African society.

www.theleadershipsummit.co.za

CASE STUDY
The Awethu Project

Discovery has provided R3 million in funding to the Awethu Project, an initiative launched in April 2010 to develop entrepreneurial potential in young South Africans from poor communities.

Four young entrepreneurs are now being supported. They were selected from 1 700 applicants through Awethu's unique talent identification process, and have received start-up capital, accommodation, office space, technological and administrative support and a stipend. They are also being coached and mentored, and have the opportunity to study for courses in entrepreneurship training at Wits Business School.

In May 2011, the Awethu Talent Identification Partners (TIP) programme was launched. Talent Identification Partners are community-based organisations working with young people from under-resourced communities, and will assist in nominating potential Awethu entrepreneurs.

"In my opinion we need to put people to work to bring about the transition to a low-carbon economy. It will solve both the economic and climate crisis"

– Al Gore, ex Vice President of the United States, campaigner for climate change, speaking at this year's Discovery Invest Leadership Summit.

Your Business, 1 October, 2011, page 8

Our environmental responsibility

We recognise environmental responsibility as important for the sustainable development of our community, economy and country. Environmental issues have increasingly become key priorities in South Africa and globally. Although Discovery's direct impact on the environment is minimal, we recognise our ability to make a positive impact through three key areas that are material to our business:

- We are responsible for reducing our own environmental footprint
- We need to understand and be responsive to environmental challenges, such as climate change, and how they impact our business. This will help us to manage climate change risk in the long-term
- We acknowledge that we play a key role in driving increased environmental responsibility among our employees, our members and policyholders, our suppliers and our partners.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Completing our stakeholder engagement on Discovery's environmental policy and strategy, and implementing our policy	• We completed stakeholder engagement with internal stakeholders on our environmental strategy. This comprehensive process was aimed at understanding and determining our approach to environmental management. This helped to ensure that our environmental policy and strategy is relevant and material to our business and aligns with our sustainability strategy and overall business strategy • We finalised our environmental policy as well as our climate change policy at the time of writing our report	◐
Agreeing on and implementing reduction targets	• We continue to improve how we measure our carbon footprint. Although we have started the process, we have not agreed on or implemented specific reduction targets. We are currently investigating different ways of reducing our energy usage	○
Implementing recommendations from our energy efficiency audit to further reduce our electricity consumption	• We are currently investigating different projects to reduce our energy usage	○
Delivering on the environmental initiatives identified by Discovery's Green Forum	• Discovery currently operates a 60% paperless environment in the area of communication to clients. Discovery's Green Forum is investigating further reducing our reliance on paper in other areas of the business	◐
Formulating and rolling out awareness and communication campaigns to educate our employees on environmental issues	• We hosted an employee awareness campaign on World Environment Day in June 2011, where we engaged our employees on environmentally friendly behaviour and highlighted some key initiatives we have undertaken to reduce our impact on the environment	◐

Our priorities for 2012

- Continue to measure and track our environmental performance
- Agree on targets for reducing our carbon emissions
- Implement a working plan to meet the commitments of our climate change policy

Discovery's position on climate change

Climate change presents a significant threat to social stability, economic prosperity and global security. We recognise that the world is getting warmer, that there is strong evidence that this warming has been caused largely by human activity, and that urgent collective action is needed to mitigate and adapt to a changing climate. While there remains uncertainty regarding the nature, extent and timing of the physical, policy and market impacts of climate change, particularly at a regional level, this uncertainty is not a reason for inaction.

As a leading insurance and financial services company that is committed to expanding access to health and wellness, and to promoting a stable society, we believe that Discovery has a particular responsibility and opportunity for responding to the issue of climate change.

Our commitments

Minimising and accounting for our direct climate change impacts

Our direct climate change impacts are associated primarily with our use of electricity and our employees commuting to and from work. We are committed to implementing appropriate measures aimed at reducing these impacts in a transparent manner. We aim to:

- Provide sufficient capacity to understand, monitor and respond to the strategic implications of climate change, and to ensure that it is integrated into our core business activities
- Identify and regularly report on the sources, nature and extent of the greenhouse gas emissions (GHG) associated with our activities, and benchmark our performance against relevant peers
- Identify and implement cost-effective measures aimed at reducing greenhouse gas emissions throughout our business activities, building on the stated commitments in our environmental policy
- Set and regularly review climate change mitigation and adaptation targets informed by accurately assessed baselines, and periodically measure and report our progress against these targets
- Develop and communicate relevant performance indicators and, where appropriate, ensure integration with internal performance incentives and remuneration schemes.

Leveraging our experience in incentivising behavioural change throughout our sphere of influence

We believe that our most effective contribution to climate change lies in our ability to exert a positive influence on our key stakeholders, as demonstrated for example in our science-based wellness programme, Vitality. We are committed to using our sphere of influence to promote a responsible approach to climate change. We aim to:

- Develop innovative products and services that incentivise our members and policyholders, partners, suppliers and the public to reduce their GHG emissions and enhance their adaptive capacity
- Address societal challenges by engaging global and national leaders through our leadership summits and related engagements
- Include climate change considerations within our minimum environmental requirements and standards for our suppliers, partners and service providers.

Supporting collaborative research and policy initiatives on climate change

Recognising that an effective response to climate change will require an informed and collaborative approach, we aim to:

- Support research initiatives aimed at enhancing understanding of the health-related risks of climate change and assessing the implications for our health and life businesses
- Further our intellectual leadership in the field of behavioural science, extending our research in this area to encompass climate change
- Where appropriate, integrate climate adaptation considerations within the roll-out of our healthcare and corporate social investment initiatives, with the aim of addressing the vulnerability of particular stakeholders to a changing climate
- Share relevant information with stakeholders with the aim of enhancing the broader societal response to climate change, while respecting the need for commercial confidentiality
- Contribute, where appropriate, to the development of effective and efficient long-term public policy on climate change that provides for regulatory certainty.

Our performance highlights for 2011

Individual new business grew by **24%**

Operating profit increased by **14%** to **R1 357 million**

Total medical scheme membership administered by Discovery Health increased by **6%** to **2.5 million** lives

Annualised lapse rate decreased to **4.07%**

Risk management initiatives result in a saving of **5.7%*** for the Discovery Health Medical Scheme

We rolled out a number of significant service and benefit enhancements that ensure members have access to quality care and makes it easier for them to use and navigate the healthcare system

** Estimated savings of risk management initiatives as a percentage of annual gross contributions*

"Discovery Health is currently the largest open medical scheme in South Africa, responsible for managing the healthcare needs of 2.5 million lives. We have successfully grown the Discovery Health Medical Scheme on a sustainable basis every year while ensuring members have access to quality care and benefits within an increasingly complex healthcare environment."

This necessitates reaching a balance between the opposing demands from multiple stakeholders, including members, employers, healthcare professionals, financial advisers and the regulator.

To achieve healthy growth and ongoing financial sustainability it is necessary to constantly enhance the quality of care, services and value that members receive. During 2011 and going into 2012, we focused on enhancing the quality of care our members receive, controlling costs and improving their experience in the healthcare system.

Discovery Health has consistently invested in generating a positive change in the ratio of quality to cost through product, benefit and service innovations that enhance the quality of care our members receive. This helps to control costs and improves members' experience of the healthcare system.

Read more about how Discovery Health makes a difference in our members' lives on page 54.

Our focus areas during 2011

Build a better healthcare system for our stakeholders and ensure value for members

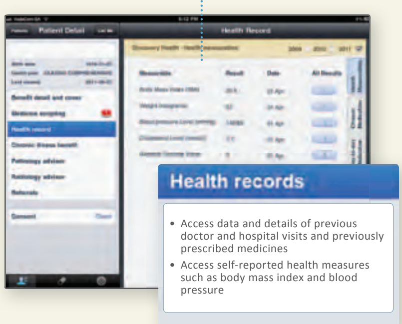
Our key objectives are to provide quality benefits and competitive contributions for members, while ensuring healthcare professionals are remunerated fairly. At the same time, we have the responsibility to ensure the Discovery Health Medical Scheme and all schemes under our management remain financially sustainable over the long-term. For our members, one of our most important stakeholders, ensuring quality benefits while maintaining costs, is one of our key challenges. Since 2007, we have invested in innovative approaches to ensure members have access to quality care while ensuring the cost per unit of a benefit remains within acceptable levels. Some of these innovations include the GP Network, the Trauma Recovery Extender Benefit, Delta Plan range, the Insured Network Benefit, Integrated Care Unit and the Supplementary Cancer Protector – all aimed at maximising members' cover. A measure of our success in minimising gaps in cover is the cover ratio – an assessment of the level of cover members have when engaging with the healthcare system. Members on KeyCare, our product for the previously uninsured, for example, have 96.6% full cover for in-hospital treatment, 95% for chronic medicines and 96% for oncology.

PracticeXpress combines a significant set of health data gathered from 2.5 million members with the latest **Apple iPad** technology. It offers a suite of tools that:

Enhances the quality of care through an integrated view of a patient's medical history

Enables a seamless coordination of further care through online referrals, scripting and chronic applications

Minimises the risk of co-payments by providing the patient's plan details, as well as the ability to search for and prescribe medicines covered on a member's plan.



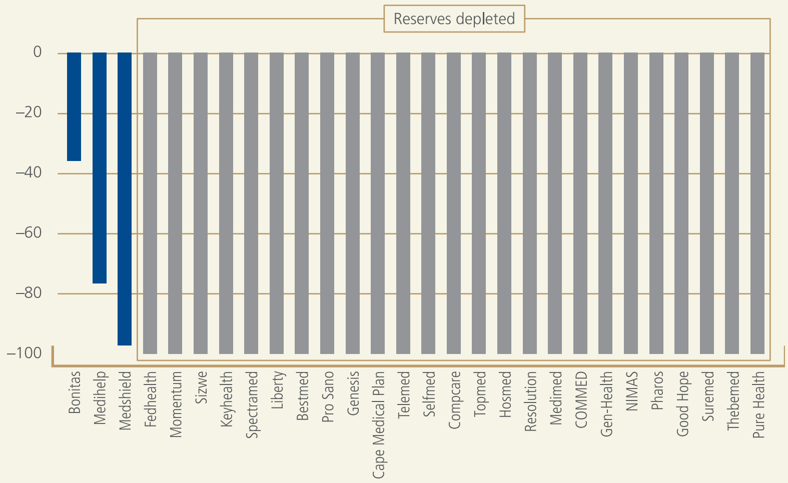
During the year, we also invested considerably in tools and infrastructure that not only enhance the quality of care experienced by members, but also help to maintain costs. PracticeXpress is one of the important innovations we rolled out during the year. This service, which uses the latest iPad technology, enables healthcare professionals to effectively manage their patients' care by providing access to a full health record of all Discovery Health members who give their consent to their doctor. It also provides tools to script medicines and apply for chronic medicine benefits. This service innovation also significantly enhances a member's experience of the healthcare system.

State-of-the-art risk management and investment in healthcare assets to improve the efficiency of care and drive down costs

Developing healthcare assets and investing in sound risk management initiatives have become more critical to ensure the financial stability of a medical scheme in recent years. The increasing prevalence of non-communicable diseases such as cancer, cardiovascular disease and hypertension has contributed to the industry trend of more high-cost claimants. The cumulative effect of these related healthcare costs can be significant for a medical scheme. Our data shows that the impact of Discovery Health's top 1 000 claiming families on competitor scheme solvency could be severe.

Change in solvency: the impact of Discovery Health's top 1 000 claiming families on competitive schemes

(%)



We use an integrated care model to effectively manage the cost of care for the Discovery Health Medical Scheme and fund the latest medical technologies by applying sophisticated health economics to funding decisions. The effectiveness of this model in containing costs is measured through the Discovery Health Index. This index measures the average annual cost increases over a four-year period for a basket of procedures including carpal tunnel release, cataract surgery, tonsillectomy, coronary bypass, hip replacement, knee replacement, circumcision, Caesarean delivery, normal vaginal delivery, and GP, paediatric and gynaecology consultations. The index measures the Discovery Health medical inflation relative to Consumer Price Inflation (CPI) as well as competitor schemes. Our results show a medical inflation of CPI + 0.4% compared to the rest of the industry's CPI + 3.0%.

Our risk management capabilities and direct payment arrangements with healthcare professionals resulted in a low rate of medical inflation for Discovery Health members, relative to competitor schemes in the market. Over the previous four years, Discovery Health members experienced an effective medical inflation rate of 8.3% versus a market average of 11.6% for a common basket of medical procedures. The cumulative effect of a lower medical inflation rate over the past four years is a difference of 13% between Discovery Health and the market average.

Ensuring the improvement of the health risk profile of the Discovery Health Medical Scheme

To make healthcare accessible to a large group of people, healthcare in South Africa is funded through the principle of cross-subsidisation, which essentially means that healthy members pay for sicker members. It is therefore important for a medical scheme's sustainability to attract and retain healthy members. A focus on wellness and the ability to encourage positive health behaviour in people through the use of behavioural economics, has been a key strategy for Discovery Health to help improve the health risk profile of the Scheme. Our claims data show that the highest healthcare spend is incurred on behalf of a small minority of members – 0.25% of our members account for 18.5% of the total claims spend. This is because of the high severity, but low frequency of serious healthcare conditions. The value delivered through Vitality in making our members healthier and offering value to members is a key driver of the Discovery Health Medical Scheme's low lapse rate.

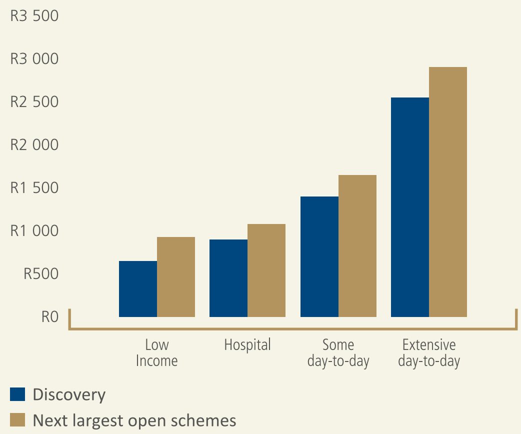
Growing the Discovery Health Medical Scheme sustainably

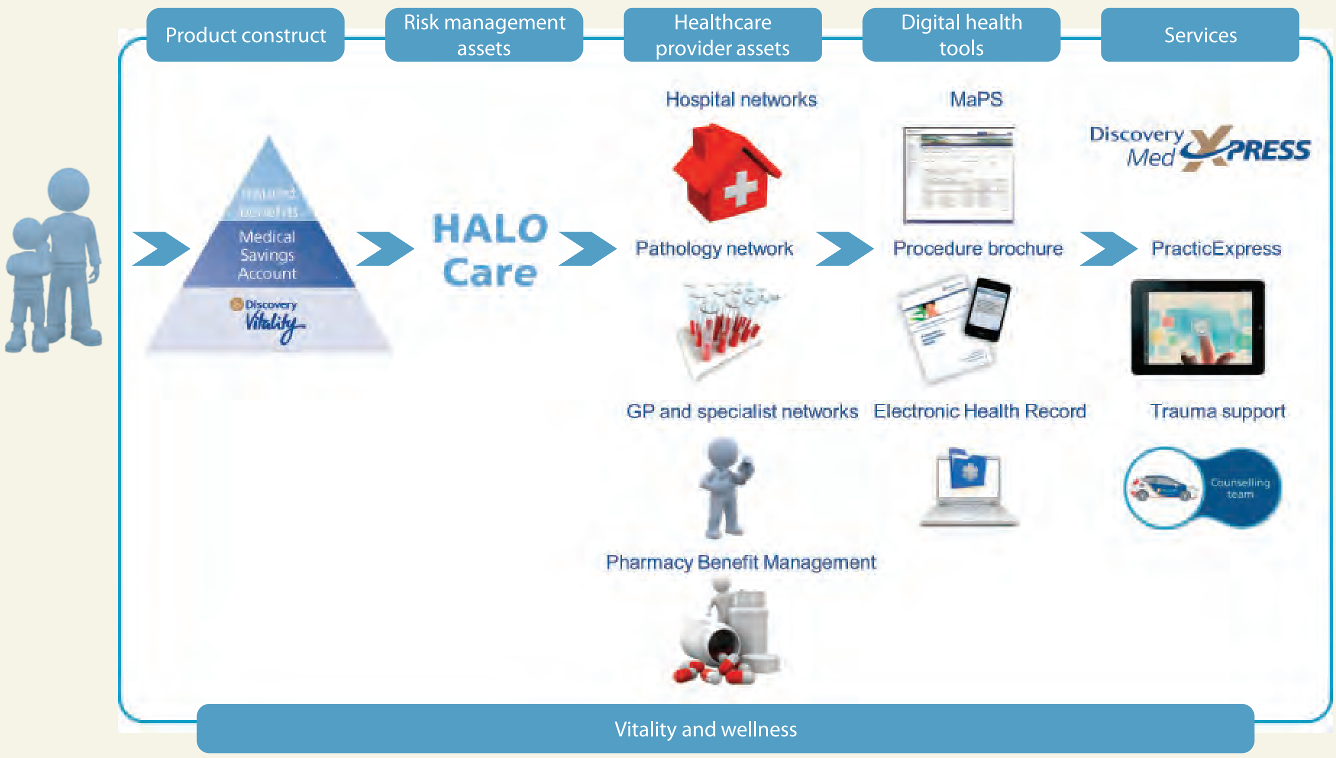
During the year, Discovery Health continued to grow sustainably with the addition of 87 691 new principal members while solvency levels crossed the R7 billion mark at the end of the financial year. Integral to our growth is our ability to offer competitive contributions and benefits. Comparisons between Discovery Health's overall value proposition and competitor schemes show that Discovery Health offers 20% more value in benefits at lower contribution rates.

Engage key stakeholders and use our healthcare expertise to build a better healthcare system for all South Africans

Discovery Health occupies a central role in the South African healthcare system and therefore has an important responsibility to help build and strengthen the healthcare system, not only for our members, but for all South Africans. One of the ways in which we support and strengthen the healthcare system is through corporate social investment. Since 2005, and committed until 2015, we have invested R350 million in healthcare programmes and initiatives aimed at strengthening especially primary healthcare.

Monthly premium for a principal member





Discovery Health's integrated care model effectively manages the cost of healthcare

Over the past five years, we have also done considerable work to support healthcare resources and skills as a national asset. Following from our research in 2005 to understand the environmental challenges facing specialist medical training in South Africa, we introduced the Discovery Foundation Awards. These annual awards are aimed at supporting specialist medical training and Academic Medicine in South Africa – a critical area of need for the sustainability of South Africa's healthcare sector in future. To date, we have provided financial support of R69 million for the training of 143 specialists and healthcare professionals in various medical disciplines where South Africa is in need of qualified doctors.

Read more about Discovery's work in the community on page 38 of this report.

For detailed information about our Corporate Social Investment programme, read our Report to Society online at **www.discovery.co.za.**

From a regulatory perspective, the period under review saw the National Health Insurance policy debate mature considerably, manifesting in the release of the Department of Health's Green Paper – the policy paper for the implementation of a comprehensive National Health Insurance for all South Africans. The proposal details a strongly positive and sound reform framework that is intended to strengthen the overall healthcare system, including both the public and the private elements of the national healthcare system. This policy framework provides an exciting and much needed opportunity for all stakeholders in the healthcare system to work together to improve our national healthcare system and to make a real impact on health outcomes for the people of South Africa. We are confident that if properly executed, South Africa's healthcare system will be strengthened.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Ensure premium and benefit stability for our members	We ensured the sustainability of members' benefits as well as the solvency of the Scheme during 2010. Our average contribution increase for 2011 of 7.9% ensured that we continued providing quality benefits to all members	◐
Improve the quality and care for Discovery Health members	We used our scale and expertise to improve healthcare delivery for our members with key initiatives that included: • The Discovery Integrated Care Unit that ensures members with extensive medical needs receive holistic treatment from a team of medical experts, care coordinators, and community-based care providers • The Discovery Trauma Support Service that provides 24/7 access to a fleet of trauma support vehicles staffed by trained trauma counsellors • Discovery MedXpress, a dedicated medicine delivery service, guarantees that members who live in major metropolitan areas have their chronic and prescription medicines delivered to their door • The first Discovery Health Member Lounge at the Life Fourways Hospital in Gauteng where members and their families have access to facilities and support services during a hospital stay • Extension of our Member and Oncology Liaison Manager service that provides personal support to members who are admitted into hospital or who are facing cancer treatment	◐

Our priorities for 2012

Drive further service and benefit innovations for members, healthcare professionals and financial advisers

For 2012, we have introduced Full Cover Choice that helps members navigate the healthcare system and maximise their cover. All Discovery Health plans today offer members the choice of being covered in full for hospitalisation and chronic medicine while members on specific plans also have access to full cover for GP consultations through the Insured Network Benefit. Full Cover Choice helps guide members so that they do not experience any shortfalls in cover.

PracticeXpress, a service offering aimed at healthcare professionals and part of the Discovery Xpress range of services, was rolled out during 2011, and we will be introducing up to 5 000 healthcare professionals to this service during the first quarter of 2012. For 2012, we have also introduced HospitalXpress that offers members express online pre-authorisations to confirm cover, as well as AdviserXpress that includes tools and information for financial advisers.

Bring down the cost of healthcare for Discovery Health members

For 2012, we have introduced the Discovery Health MedSaver benefit, aimed at saving members up to 25% on over-the-counter medicines. Over-the-counter medicines are a significant expense for consumers: Discovery Health members spent R550 million on over-the-counter medicines in 2010. Through the MedSaver benefit, members could save more than R130 million. To gain these discounts, members will need to complete a VitalityCheck at a pharmacy in the Vitality Wellness Network or at a company wellness day. Through this prerequisite we hope to encourage more members to undergo important preventive health screenings such as hypertension, diabetes and cholesterol screening tests.

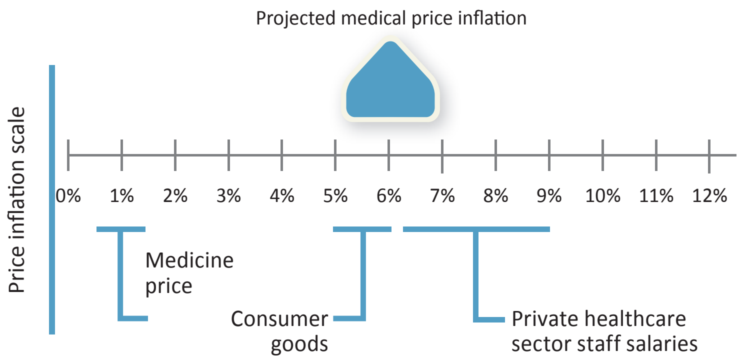
CASE STUDY

How do medical schemes decide on contribution increases each year?

Medical scheme contribution increases are typically driven by healthcare professional inflation, changes in the demographic profile of a scheme's members, advances in medical technology and scheme-specific funding and solvency requirements.

1. The price of medical goods and services

Price inflation is the base cost driver of contribution increases and is determined by the tariffs that individual schemes negotiate with healthcare providers.



2. Changes in the demographic profile and how people use benefits

For every year that the average age of a scheme increases, the claims cost increases by approximately 2% a year above price inflation. This means that the difference in claims cost may accelerate. Advances in medical technology and treatment protocols also drive increased benefit utilisation – and improved outcomes – which impact all medical schemes and contribute an additional 1% to 2% to contribution increases.

3. A scheme's solvency and funding requirements

Margins for solvency and reserve funding are influenced by the need to fund higher reserves to cover member claims and membership growth. Membership growth is important to the sustainability of medical schemes. However, for every new member joining the scheme, 25% of yearly contributions must be added to reserves upfront to meet the statutory requirements.

Dr Jonathan Broomberg
CEO OF DISCOVERY HEALTH

Interview with Dr Jonathan Broomberg, CEO of Discovery Health, on the National Health Insurance (NHI) Green Paper

What do you think is the motivation behind NHI?

- There is clear evidence that South Africa's overall healthcare system needs substantial reform in order to improve health outcomes for all South Africans. The NHI policy paper provides a clear and rational reform framework that should result in a strengthening of the overall healthcare system, including both the public and the private elements of the national healthcare system. This policy framework provides an important opportunity for all stakeholders in the healthcare system to work together to improve our national healthcare system and to make a real impact on health outcomes for the people of South Africa.

How will NHI affect the private medical scheme industry?

- Discovery Health believes that a strong and successful NHI would be an excellent outcome for South Africa, as people will have greater choice and flexibility of healthcare cover options. The NHI policy paper confirms that within the proposed NHI system, individuals will remain free to belong to medical schemes. Given that NHI is to be implemented over a 14-year time frame, we expect that current medical scheme members are likely to retain their membership of medical schemes while the accessibility of services provided by NHI is developed. Over time, we do envisage that a proportion of medical scheme members may opt to obtain their healthcare services from NHI, and may choose different forms of medical scheme cover as a result. In this situation, we continue to see a significant role for medical schemes.

Can South Africa afford NHI?

- The policy paper does not provide extensive detail on the costing of the NHI proposals, and we await further estimates with interest. However, additional spending on healthcare can have very positive macro-economic impacts if the increased spending results in significant improvements in health status of the population. In that sense, South Africa has to afford the proposed NHI, and all stakeholders must work together to ensure that it can be implemented in an effective and rational way.

How can NHI be funded without straining the minority number of tax payers further?

- The policy paper does not provide detail on the financing model at this stage, so it is difficult for me to comment on this aspect. Most indications, however, suggest that if additional taxes are implemented, these will be at modest levels and not immediate.

Do you think NHI will improve the standards of healthcare in the public sector over the long-term?

- The NHI policy paper demonstrates significant insights into the problems impacting both the public and private healthcare sectors, and makes a number of detailed and insightful proposals in how to address these. These include proposals relating to the improvement of primary healthcare, the management of public hospitals, and solutions to the human resources shortages. We believe that these proposals are sound and appropriate for our healthcare system, and that they could have a significantly positive impact on the quality of healthcare in South Africa if they are implemented effectively.

What are some of the lessons that South Africa can learn from countries such as the UK, with its experience with the NHS?

- Many countries around the world have successfully implemented various models of health financing and delivery that provide universal coverage to all citizens. In all cases, these have required extended periods to implement effectively, and have gone hand in hand with broader economic development. There is not a single NHI model that is universally applicable, and the model applied in each country depends on the history and circumstances of its healthcare system. South Africa's circumstances and challenges require a distinctly South African solution. While the UK NHS model is itself unique, it does have several elements we could learn from in South Africa. These include the effective 'purchaser-provider split' model (which is proposed in the NHI policy paper), and the use of alternative reimbursement methods, such as capitation, to reimburse doctors working within the system.

How Discovery Health makes a difference in people's lives

With over 200 000 member interactions a day, ranging from new applications and call centre queries to emergency medical support, the scale of Discovery Health's operations is substantial.

We monitor each of these interactions closely and have used the experience from the 2.5 million lives under our care to develop clearly defined and differentiated member "experiences".

These experiences are facilitated by:

1. A broad, flexible plan range with unique benefits in each key area of cover
2. A series of online advisers and services that assist in navigating members through the healthcare system
3. A robust client-centric service offering where we can engage with our members across multiple media

Members can log on to Discovery's interactive website to use several convenient and user-friendly self-service tools

Access tools:
- Benefit Adviser
- Med Adviser
- MaPS Adviser
- Hospital Adviser

Update your details

Get your tax certificate

To provide our members with excellent service, a team of dedicated and professional experts is available 24 hours a day, 7 days a week.

Members can visit any of our conveniently located walk-in centres that provide specialised and focused customer service to our members.

- Sandton
- Centurion
- Cape Town
- KwaZulu-Natal
- Port Elizabeth

Members can email their claims to us or drop them off in one of our conveniently located claims boxes.

20
11

Discovery Health

Vitality helps members to get healthier by giving them the knowledge, tools and motivation to improve their health. As members get healthier, earn Vitality points and build up their status, they will enjoy greater rewards.

Benefit Adviser helps members track and maximise their day-to-day cover while the **Medical Savings Booster** helps fund their day-to-day healthcare expenses when their benefits have run out. **MedSaver** saves members up to 25% on schedule 1 and 2 medicine.

Access the Benefit Adviser online at www.discovery.co.za

MaPS Adviser helps members find healthcare service providers where they will be covered in full, based on their specific plan.

Access MaPS Adviser online at www.discovery.co.za

Doctors who have an iPad can use **PracticeXpress**, which offers a suite of tools designed to enhance the quality of care Discovery Health members receive and help to make their visit a more simple and efficient process.

Access this service when visiting a doctor using the PracticeXpress application on the iPad.

Med Adviser gives members information on how they are covered for medicines, devices and medical equipment. By showing members what medicines are on our medicine list and helping them find a pharmacy in our network, it will guide them to make choices that give them full cover.

Access Med Adviser online at www.discovery.co.za

When members need to get their medicine, they can contact Discovery **MedXpress**. This is a convenient medicine delivery service that helps members reduce or eliminate co-payments. Members don't pay any administrative or delivery costs.

Members call 0860 99 88 77 to place their MedXpress medicine order.

HospitalXpress makes admission to hospital for members convenient and seamless. It offers express pre-admissions and online tools to authorise their admission (including Hospital Adviser) and confirm their cover.

Access HospitalXpress online at www.discovery.co.za

Discovery*Care* looks after members in times of need through high-touch support and providing the most appropriate care to members when they need it most.

Members call us on 0860 99 88 77 to register on the various programmes.

Members have access to life-saving, medically-equipped air or road transport. **Discovery Medicopters** and ground staff offer medical support and air evacuation in critical cases and operate from Johannesburg, Cape Town and Durban.

Members call 0860 999 911 in an emergency.

Our performance highlights for 2011

We increased the value of in-force business by **25%** from **R9 437 million** to **R11 764 million**

Operating profit increased by **16%** from **R1 341 million** to **R1 558 million**

New business grew by **5%** from **R1 542 million** to **R1 620 million**

We introduced new products to the market that help to make life cover more interchangeable during specific life-changing events

> Globally, insurers are faced with challenges to sustain growth. These include issues such as the slowly recovering economy, the impact of regulatory reforms, a highly competitive environment and importantly, the evolving needs of more price-sensitive and service-conscious consumers. Increasingly, insurers are required to use data as a strategic asset to improve their operational performance, and beyond data management, insurers also use advanced analytics, predictive models, sophisticated underwriting and risk management tools as well as claims fraud software to improve their performance. The ability to innovate is therefore critical to develop and sustain competitive advantage.[1]

1 "Insurance industry outlook: high hurdles loom in 2011 and beyond", Deloitte Development, 2011

Five key environmental trends in the life assurance industry

Clients have too little disability cover, which leaves them exposed at times of need

The 2010 Actuarial Gap study highlighted that South Africans remain underinsured when faced with a life-changing event. This poses a serious financial risk to clients as they continue to live longer while becoming severely ill more often due to a range of lifestyle-related diseases.

One of the ways in which Discovery Life addresses this trend is through the Cover Integrator product. This product allows a policyholder to increase their LIFE FUND at an approximate premium saving of 50% on the increased cover. The level of the Cover Integrator fluctuates on an annual basis depending on the policyholder's Vitality status.

Increased economic volatility and decreased liquidity

The global financial crisis has been the catalyst for a significant increase in market volatility in recent times. This has coincided with a period where household debt increased and household savings declined, resulting in reduced liquidity. Consumers are therefore searching for a way to leverage current assets to access liquidity in times of need.

Discovery Life's AccessCover™ product addresses this problem by giving policyholders the flexibility to convert their life cover into immediate cash for a number of life-changing events that include severe illnesses such as cancer and transplants.

Shift towards products that are transparent and understandable to consumers

The responsibility for Treating Customers Fairly (TCF) stretches across all aspects of the industry from the development of products to marketing material and distribution channels. This has resulted in an industry-wide shift toward more objectivity and certainty in all products and processes.

We introduced the SmartAdvice tool to guide financial advisers and consumers through the financial planning process. This integrated view of a client's portfolio, combined with a financial needs analysis and the ability to illustrate the effect of additional Discovery Life benefits, enables financial advisers to offer clients a complete solution and financial advice.

Shift to flexible, dynamic benefits to meet client needs

Traditionally, risk products were focused on meeting the 'static' needs of the client in times of death, disability and dread disease. Over time, there has been a shift towards a focus on products that adjust dynamically to meet the changing needs of an individual.

Discovery is the only insurer whose benefits not only offer pure risk protection, but also give policyholders cash payouts at various stages throughout the policy term, based on the policyholder's level of engagement in health and wellness. The Cash Conversion on the Cover and Financial Integrators provides policyholders the opportunity to gain access to a significant tax-free cash lump sum when they turn 65 to supplement their retirement savings.

Increasing individuals' desire to become philanthropic and leave a legacy

Philanthropy has evolved from companies getting involved in their communities through corporate social investment to high net worth individuals and celebrities actively engaging in social development. This has led to an increasing trend for individuals wanting to give more to charity and making a positive difference.

Discovery Life's Philanthropy Fund gives policyholders the opportunity to use their LIFE PLAN to give significant sums of money to charities of their choice. We designed the Philanthropy Fund on a non-profit basis, providing administration and capital on a marginal basis to ensure that the maximum charitable donation is made.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Continuing product innovation that leverages the integration capabilities of Discovery Vitality	• We launched new products during the past year that offer clients more flexibility and meets their exact needs throughout their lifetime • These include the AccessCover™, Philanthropy FUND and the Income Continuation Benefit Extender • The AccessCover™ product enables Discovery Life clients to convert their life cover into immediate cash for a full range of life-changing events	●
Ensuring competitive pricing points to provide consumers with value	• Our product design and pricing work together to balance cost and value for consumers, especially during times of economic uncertainty • During the worsening economic climate in 2008, we launched the Cover Integrator product that gives consumers the ability to increase their LIFE FUND at an average premium saving of 50% on the increased cover. During the past year we introduced enhancements to the Cover Integrator product that protect policyholders against the negative effects of adverse economic events	●
Managing lapse rates and ensuring customer retention	• Vitality has enabled us to not only offer our clients more value, but is also a key strategy in reducing and maintaining low lapse rates • Our data shows that lapse rates reduce significantly for clients with integrated policies and who are engaged in Vitality • During the past year, engagement levels in Vitality increased significantly due to the benefits of integration, Vitality HealthyFood™ savings, DiscoveryCard cashbacks and Discovery Life PayBack™ benefits	◐
Containing and impacting morbidity and mortality experience positively	• Discovery Life pioneered dynamic underwriting that allows us to price risk more accurately and adjusts premiums throughout the life of the policy. Through integration with Vitality, policyholders improve their health and risk profile, thereby allowing us to adjust our risk rating closer to an individual's risk profile. During the past year, increased engagement with Vitality resulted in enhanced mortality and morbidity experience	◐

Within this complex economic environment, Discovery Life continued to perform exceptionally well in terms of all metrics. The value of in-force business increased from R9 437 million to R11 764 million; a 25% increase. Operating profit increased by 16% from R1 341 million to R1 558 million. New business grew by 5% from R1 542 million to R1 620 million. While the business continues to grow and perform well, we focused this year on further building out the quality of the business.

Our core philosophy is to provide policyholders with the most comprehensive benefits that meet their changing needs over their lifetime, adapting according to their external environment as well as personal risk and needs. Continuous innovation, manifesting through the integration capability with Vitality and DiscoveryCard, is a key value creator for consumers, and a powerful strategy to drive new business, improve the mortality and morbidity experience, and retain clients for Discovery Life. We work on an annual cycle of innovation that ensures new product and benefit enhancements are brought to market regularly. This ensures that we are able to adapt to changing consumer needs and industry trends.

Discovery PayBack™

The Discovery PayBack™ enables policyholders to build a financial asset in their risk policy by managing their health. It refunds a percentage of the LIFE premium every five years. The percentage of refund depends on the client's Vitality status and Discovery Health claims.

Our focus areas during 2011

Using the Vitality integrated model to give consumers more value and reduce lapses

Discovery Vitality forms the foundation of the unique Discovery Life model and ensures that clients enjoy real rewards for managing their health. It has also been shown to have a significant effect in improving the mortality and morbidity experience for Discovery Life, resulting in better underwriting performance. Discovery Life clients who integrate their policies with Discovery Health, have the ability to not only lower their premiums but also to gain additional benefits through the PayBack™ benefit. The PayBack™ benefit is progressive – the longer a client remains on Vitality and Health, and the better their Vitality and health status, the greater the reward.

The table below illustrates the Discovery PayBack™ benefit in action for a policyholder who has been on Vitality for 10 years.

Health claims (Rands)	Blue Vitality Status	Bronze Vitality Status	Silver Vitality Status	Gold and Diamond Vitality Status
R0 – R3 060	40%	50%	60%	60%
R3 061 – R5 070	30%	40%	60%	60%
R5 071 – R10 280	20%	30%	50%	60%
R10 281 – R15 280	15%	25%	45%	60%
R15 281 – R25 410	5%	15%	35%	60%
R25 411 – R35 685	0%	10%	30%	60%
R35 686 +	-5%	5%	25%	55%

Introducing innovative products to the market that increase new business and improves margins

A key strategy for Discovery Life has been to provide products that meet clients' needs and protect them during every stage of their life. Traditionally, life insurance product design has been static and focused on meeting the core needs of a client during instances of death, disability and dread disease. Discovery Life's approach has been to offer products that adjust dynamically to meet the changing needs of the consumer while not compromising the quality of core protection cover. Examples of such products include the Financial Integrator™, LifeTime Severe Illness and Capital Disability Benefits and the Dynamic Spend Protector. These product designs recognise that individuals' needs change constantly because economic, demographics and lifestyle factors change.

The AccessCover™ product, launched in June 2011, takes into consideration that consumers have too much life cover when they are older, with more liquidity strain during times when they may require funds, for example during a severe illness or disability. A first in the South African market, this product allows policyholders to convert life cover into immediate cash for a number of life-changing events, including cancer, brain tumours, and transplants.

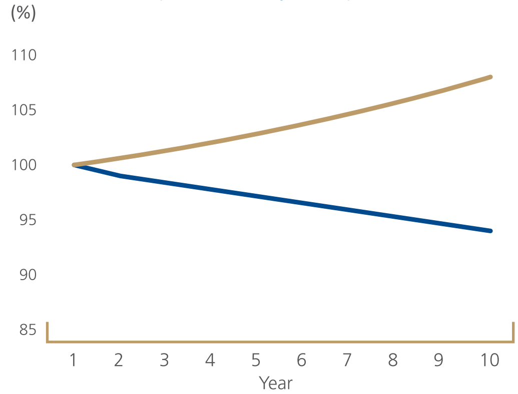
During the year, we also introduced enhancements to the Discovery Life Income Continuation Benefit product, aimed at providing additional support to policyholders in times of need. We understand that a spouse or child suffering from a severe illness may have a significant impact on a policyholder's ability to earn an income. Often the family will need time to deal with treatment, emotional and other practical issues, and this may place additional strain on the policyholder to earn an income.

Improve the mortality and morbidity experience of the Discovery Life book

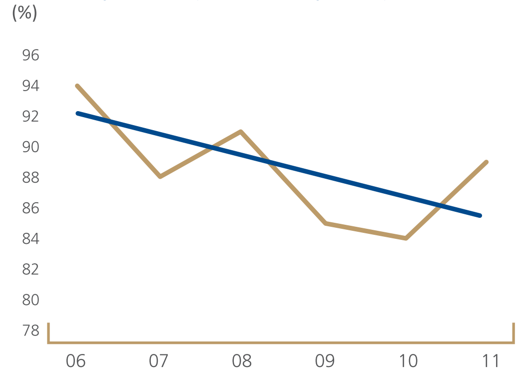
Vitality plays an important role in improving the health and risk profile of the Life book, thereby improving the mortality and morbidity experience of the Discovery Life book. Mortality and morbidity – or the incidence of randomly selected individuals in a population falling seriously ill; and the incidence of death in a population – have a significant impact on the profitability of a life assurer. Vitality has been scientifically proven to improve people's health and lower healthcare costs. Further to this, it helps attract healthy lives and increase customer retention. During the year, engagement levels in Vitality have increased considerably across all fitness and health categories. Highly-engaged members are less likely to lapse their policies, as shown by the graph alongside.

Mortality and morbidity experience as the drivers of profitability

Theoretical model – mortality experience of the in-force (actual to expected)



Back testing of model – past Discovery Life claims experience (actual to expected)



Continued training and support for financial advisers

The life insurance industry has become increasingly complex as life assurance products evolve to meet the changing needs of consumers. In this environment, financial advisers play a critical role in adding value to consumers by providing in-depth financial needs analysis, consumer education and support. While the South African life assurance industry has seen the entry of several direct insurers over the last few years, Discovery Life's continuous focus on innovation through integration necessitates a high-advice distribution model.

During the year, we continued investing in our distribution channels to ensure higher production targets are met as well as better quality new business written. This included ongoing training and support for financial advisers, for example the Discovery Insights series, a series of regular workshops on relevant industry topics. These workshops are aimed at better equipping financial advisers to provide high-quality advice on complex financial products. We also provide support for financial advisers to further their education with Financial Planning Institute training sessions for those financial advisers who are preparing to write the FPI (ILPA) examinations.

Read more about how Vitality helps to make people healthier on page 74.

Our priorities for 2012

A continued focus on managing financial risk

During 2012 we will continue to focus on managing the financial risks of lapses as well as mortality and morbidity experience. Increased Vitality engagement is not only an important strategy for customer retention but also has a positive impact on mortality and morbidity experience. Clients who are more engaged in the Vitality programme are less likely to lapse their cover. A key focus for Discovery Life is therefore to drive increased Vitality engagement.

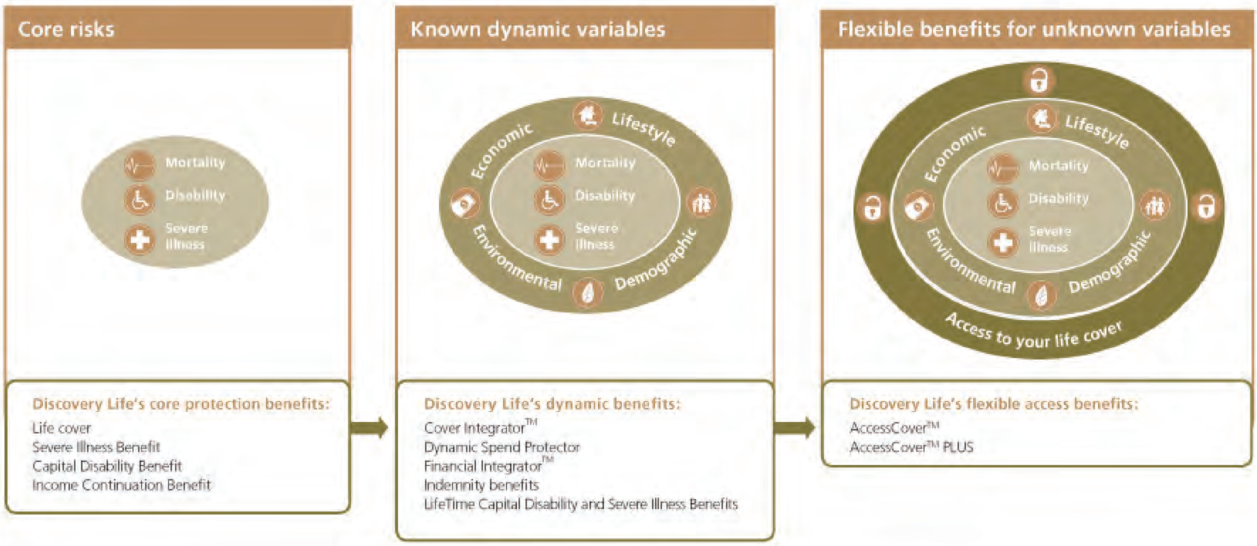
A focus on further innovation to meet the needs of clients

Continued innovation is important for new business growth – within the current Discovery client base as well as externally. The benefit of integration with other products such as Discovery Vitality and DiscoveryCard provide further opportunity to drive new business. At the time of writing the report, we introduced the CoverBooster product, aimed at further addressing the consumer trend of underinsurance. This product offers policyholders an additional 32% free life cover for three years. After three years, the policyholder will be able to pay a discounted rate for the life cover, based on their Vitality status over the three-year period.

Enhancing our Group Risk offering for corporate employers

Discovery Life's Group Risk offering is modelled on the Discovery Life product and offers a suite of employee benefits for employers. During the next year we will focus on expanding our current offering to give employers a more comprehensive employee benefits offering.

Shift from static to dynamic and flexible benefits to meet client needs



Discovery Life's operating model

The Discovery LIFE Plan offers a range of unique and flexible benefits and services that meet clients' needs throughout their lives. Discovery Vitality underpins these benefits and services to ensure clients enjoy real rewards for managing their health.

smartAdvice

Discovery's innovative SmartAdvice tool is designed to guide you through the essential steps of the financial planning process.

smartService

Discovery Life recognised the need for an easier and more convenient life assurance acquisition process. In September 2003, we launched SmartService™, aimed at making the process easier for our financial advisers and new applicants.

Integration

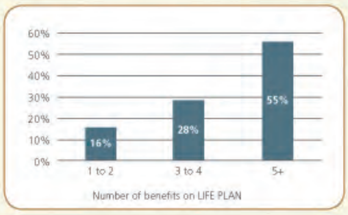
Discovery's Integration model uses our wealth of information about policyholders' health, wellness and credit card spend to facilitate a scientific method of dynamically underwriting the policyholder in an attempt to assess a policyholder's risk more accurately through time.

This is achieved through the seamless integration of the following four key components:

- Client Portfolio Review
- Financial needs analysis
- SmartQuotes
- Integrators in Action

There have been 214 022 downloads of the Client Portfolio Review.

The fully integrated approach to giving financial advice has manifested in policyholders engaging in a complete end-to-end benefit solution as illustrated by the proportion of policyholders who take multiple benefits on their LIFE PLAN.

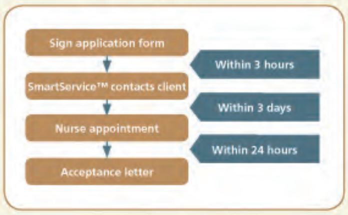


SmartService™ currently contacts clients to arrange appointments for the completion of the *Short medical report*, medical questionnaires and blood requirements, which are completed by our nurses.

Our SmartNurses take 31 litres of blood per day

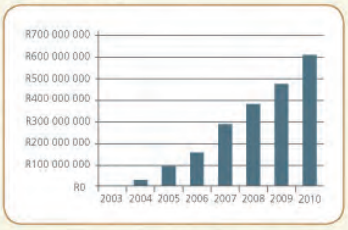
Our SmartService™ cars drive 3 542km per day

The SmartService process provides the quickest, most efficient application and underwriting process in the industry:



This unique model has unlocked significant savings for policyholders since it was first introduced in 2002:

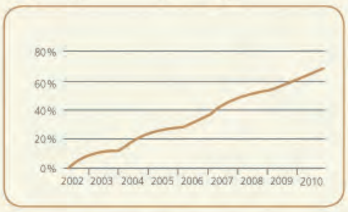
Integrator savings



The premium integration model has saved policyholders over R2 billion to date.

Policyholders are realising the value proposition offered by integration and this has been shown by the increasing proportion of policyholders who select integrated policies as well as the increasing number of policyholders engaging in Vitality.

Integrated policies as a percentage of the total book



Financial benefits

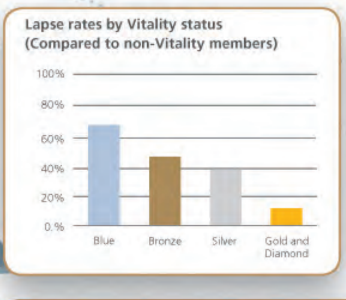
Discovery is the only insurer whose benefits not only offer pure risk protection, but also give policyholders cash payouts at various stages throughout the policy term, based on the policyholder's level of engagement in health and wellness.

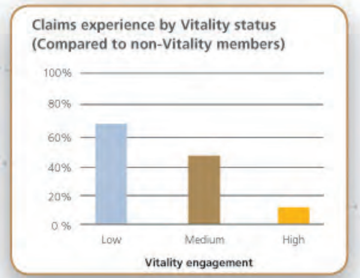
smartClaims

Discovery's SmartClaims process ensures that claims are assessed efficiently and fairly. Discovery's case managers, counselling and rehabilitation services ensure that a more compassionate, human touch is added to the claims experience.

Unique benefits

The Discovery LIFE PLAN offers a full range of comprehensive risk protection benefits. Each benefit contains several unique features that create a value proposition unmatched anywhere in the market.





Increased engagement in Vitality has manifested in policyholders realising further value through Integration and this has resulted in engaged policyholders having significantly increased persistency. The sustainability of the model is verified by the fact that policyholders who engage in activities to improve their health are genuinely claiming less.

PayBack™

Discovery's unique PayBack™ Benefit allows policyholders to get up to 60% of their risk premiums back by managing their health and wellness.

To date, we have paid policyholders R176 million through the PayBack™ benefit. This is expected to grow to R746 million by 2014.

Cash Conversion

The Cash Conversion on the Cover and Financial Integrators provides policyholders the opportunity to gain access to a significant tax-free cash lump sum when they turn 65 to supplement their retirement savings.

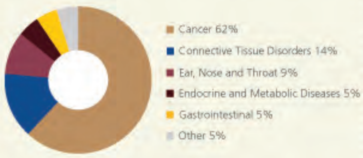
The effective internal rate of return that can be achieved on these Cash Conversions by introducing them within a risk framework is staggering and is illustrated for various ages and Vitality statuses below:

		Age next		
		30	40	50
Vitality status	Blue	12.3%	11.2%	7.66%
	Bronze	18.5%	17.6%	16.43%
	Silver	24.1%	23.0%	21.91%
	Gold	28.7%	26.7%	25.0%
	Diamond	31.4%	27.73%	25.1%

Assumptions: Male; non-smoker; Discovery Classic LIFE PLAN; AcceleRater CPI, R2 million LIFE FUND, R1 million Capital Disability, 40% Cover Integrator, 20% Financial Integrator, Health and DiscoveryCard Integrators; Comprehensive Health Plan, Health claims R4 000 per year increasing at CPI+3%; DiscoveryCard spend R10 000 pm; CPI=5%

Pro-active claims

Through our unique relationship with Discovery Health, we can see when a policyholder may be eligible for a claim. The Severe Illness Benefit claims for which we have pro-actively notified financial advisers and policyholders, fall into the following body systems:



Discovery's record at the Ombudsman is exemplary

10 550 claims paid by Discovery Life in 2010

↓

51 claims submitted to the Ombudsman

↓

All cases ruled in favour of Discovery Life

↓

Discovery accounts for 5% of industry death and disability claims, but only 1% of Ombudsman cases

- LifeTime Benefit
- Automatic Child and Parent Severe Illness Benefit
- Cover up to age 70
- Upgrade to 100% of income when permanently disabled
- In-claims escalation of CPI + 3%
- Cash Conversion on the Cover and Financial Integrator™
- Contribution Protector
- No general waiting periods
- Interest Rate Protector
- Dynamic Spend Protector
- Claims assessment filter
- The Severe Illness Extender Benefit
- Nominated occupation definition
- Global Treatment Benefit
- Capitalise unused risk cover to supplement retirement income
- Comprehensive multiple claims
- Conversion to the Severe Illness Benefit at benefit expiry

Our performance highlights for 2011

Discovery Invest turned significantly profitable with an operating profit of **R101 million**

The value of in-force business increased by **40%** from **R837 million** to **R1 172 million**

Assets under management exceeded **R17.2 billion**

Product innovation ensured greater take up of Discovery Invest Funds, resulting in increased margins

At December 2010, Discovery Invest's Funds outperformed their peer group by **7.94%** on average

The Discovery Equity Fund and Discovery Flexible Property Fund were ranked first on performance and both received a five-star rating from Morningstar

Discovery Invest received the Financial Intermediaries Association of South Africa (FIA) Award for best recurring premium business in 2011

> Discovery Invest was launched in 2007 at the start of the financial crisis. Despite the worsening economic climate and South Africa's low savings levels, Discovery Invest has grown exponentially and now manages over R17.2 billion in assets.

Our success in this difficult operating and highly competitive environment can be attributed to a combination of offering investors innovative products and strong market performance. Continued innovation is increasingly becoming important to meet the needs of consumers in an uncertain investment environment.

Our vision has been to leverage Discovery Life's research and development capabilities with the breadth and skill of the asset management industry, to deliver investment products that address the current gaps in the market. We achieve this by offering unique protection against poor investment choices. While Discovery Invest offers a comprehensive range of investment products to meet different needs, we continuously work to create innovative products that address the structural challenges inherent in a specific investment product. Examples of these innovations are the Discovery Guaranteed Escalator Annuity and the Discovery Classic Flexible Investment Plan. Launched during the year, these two products are aimed at delivering solutions to the retirement income market segment and the LISP market segment.

The result has been outstanding for Discovery Invest, with excellent fund performance and a higher take up of Discovery Funds, resulting in higher margins, growth and profitability for Discovery Invest. The Discovery Escalator Funds, for example, continued to provide significant performance with valuable protection. One of the Escalator Funds, the Discovery Equity Fund, delivered a return of 29.8% since inception, which would rank the fund fifth in the Domestic Equity General Sector. It has done this while maintaining a guarantee of 80% of the highest value ever reached.

Our key focus areas during 2011

Deliver real solutions to the retirement income market

We identified the benefit gaps in current retirement income products – fixed and linked annuities – as a significant risk for consumers saving for their retirement. The industry shift from employers' defined benefit retirement fund schemes that essentially guaranteed a growing income for life; to a defined contribution scheme in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee, resulted in a transfer of investment risk to individual retirees. At the same time, the number and variety of investment choices meant that investors were faced with much uncertainty in a volatile investment market. A tighter regulatory environment, however, meant that financial advisers are able to make only conservative recommendations. The result is a conservative investment portfolio that probably has too little market exposure to generate attractive inflation-beating returns. Increasing healthcare costs and a 20% longer life expectancy than past generations mean that retirees are at increasing risk of an inadequate retirement income stream even if they have saved diligently for retirement.

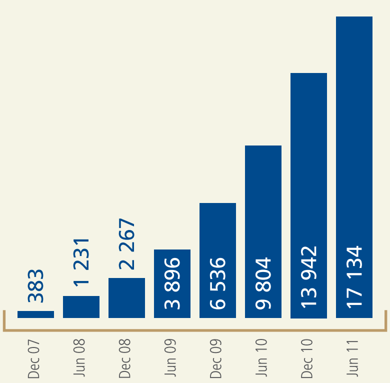
Our objective was therefore to create solutions for the retirement income market segment that would offer a guaranteed income for life with the benefit of exposure to market upside potential. The result was the Discovery Guaranteed Escalator Annuity that aims to fill the benefit gaps in retirement income products. This product enables investors to make a personalised income choice and have a guaranteed income for life. Receptivity to the product has been extremely positive with cumulative investment premium in excess of R164 million since its launch in February 2011.

The value proposition of Discovery Invest

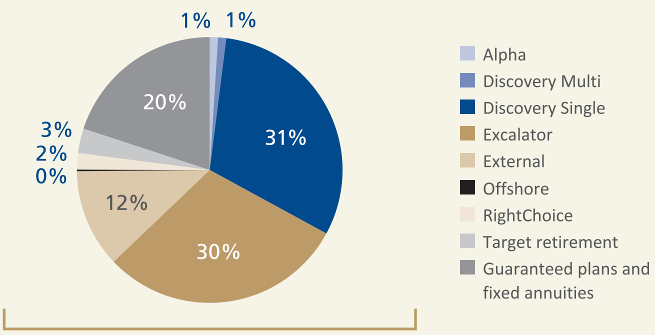
An important test of our value proposition is the performance of our products since 2007, especially given the volatile market and financial crisis. Our performance data shows a client investing in a basket of Discovery Invest Funds would have outperformed the equivalent benchmark of funds by a cumulative 7.1% over four years, with the unique Discovery Invest features adding a further cumulative 5.5%.

The value of integration further increases the benefit for investors. The As and When Investment Integrator has enhanced the returns on the Discovery Equity Fund by an additional 7.34% since inception.

Assets under management
(Rm)



Distribution of assets under management
(%)



Key to symbols	● Priority achieved	◐ Priority ongoing	○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Increase distribution support	We improved the SmartAdvice service feature by adding Invest functionality that includes a Retirement Needs Analysis, a Savings Analysis and an Education Cost Analysis	●
Drive product innovation	We introduced the Discovery Guaranteed Escalator Annuity, Discovery Classic Flexible Investment Plan, Discovery Best Ideas Fund and Discovery Global Escalator Fund to the market	●
Raise brand awareness and credibility	We hosted the second Discovery Invest Leadership Summit that included speakers such as Tokyo Sexwale, Adrian Gore, Dr Mamphele Ramphele, Nassim Taleb, Stephen Dubner and Johan Rupert, as well as former New York mayor Rudy Giuliani	●

Increase the value proposition for investors in the LISP market segment

A second focus area for us has been to increase the client and financial adviser value proposition in the LISP market by adding performance, protection and efficiency enhancements to our Flexible Investment Plan. This product currently gives investors access to the flexibility of a full range of investment options and immediate access to their investments. Our aim was to use this product platform to give investors tax-efficiency, improved performance and protection. The Classic Flexible Investment Plan offers investors unique features that for example refund 100% of a client's capital gains tax liability. It also offers protection mechanisms that ensure an investor is not disadvantaged with missed investment growth in case of disability. By improving the value proposition for investors through an innovative product structure, we aim to encourage consumers to save and invest more.

Enhance the choice of Discovery Funds to span the entire risk-reward spectrum

During the year, we worked on extending the range of investment options of Discovery Funds to ensure investors have flexibility and choice across the risk-reward spectrum. Ranging from the low-risk, low-return spectrum to the moderate-risk and return spectrum and the high-risk and high-return spectrum, investors can choose the appropriate fund to suit their individual needs. We launched the Discovery Best Ideas Fund that is aimed at meeting the needs of investors in the high-risk, high-return category. Not constrained by the restrictions imposed on a regulated fund, the Best Ideas Fund fully chases opportunities and avoids possible losses. It aims to achieve long-term capital growth through investments around the world.

CASE STUDY

The South African discretionary investment industry

The discretionary investment industry has changed dramatically since the introduction of linked product companies in the late 1980s. This sector receives more than 50% of the investment flows in the South African collective investment industry. The trends in the market have focused on high quality, flexibility and a wide fund selection. There is little differentiation, innovation and protection in this market where funds are traded like commodities on LISP platforms. Because of the low level of protection, many LISP investors make tax-efficient investments, especially since they tend to make conservative investments that generally have a high interest component and can be taxed up to 40%. Performance fees have been introduced to many of these funds. While these funds are marketed as reward for out-performance, they are complex and could effectively charge investors an extra layer of fees for under-performance relative to peers. In many cases, investors are not aware of these fees.

Our priorities for 2012

Continued product innovation to offer investors greater value and protection

During 2012, we will continue to focus on developing innovative investment products that will extend the range of investment choices for consumers, as well as to offer them unique savings protection.

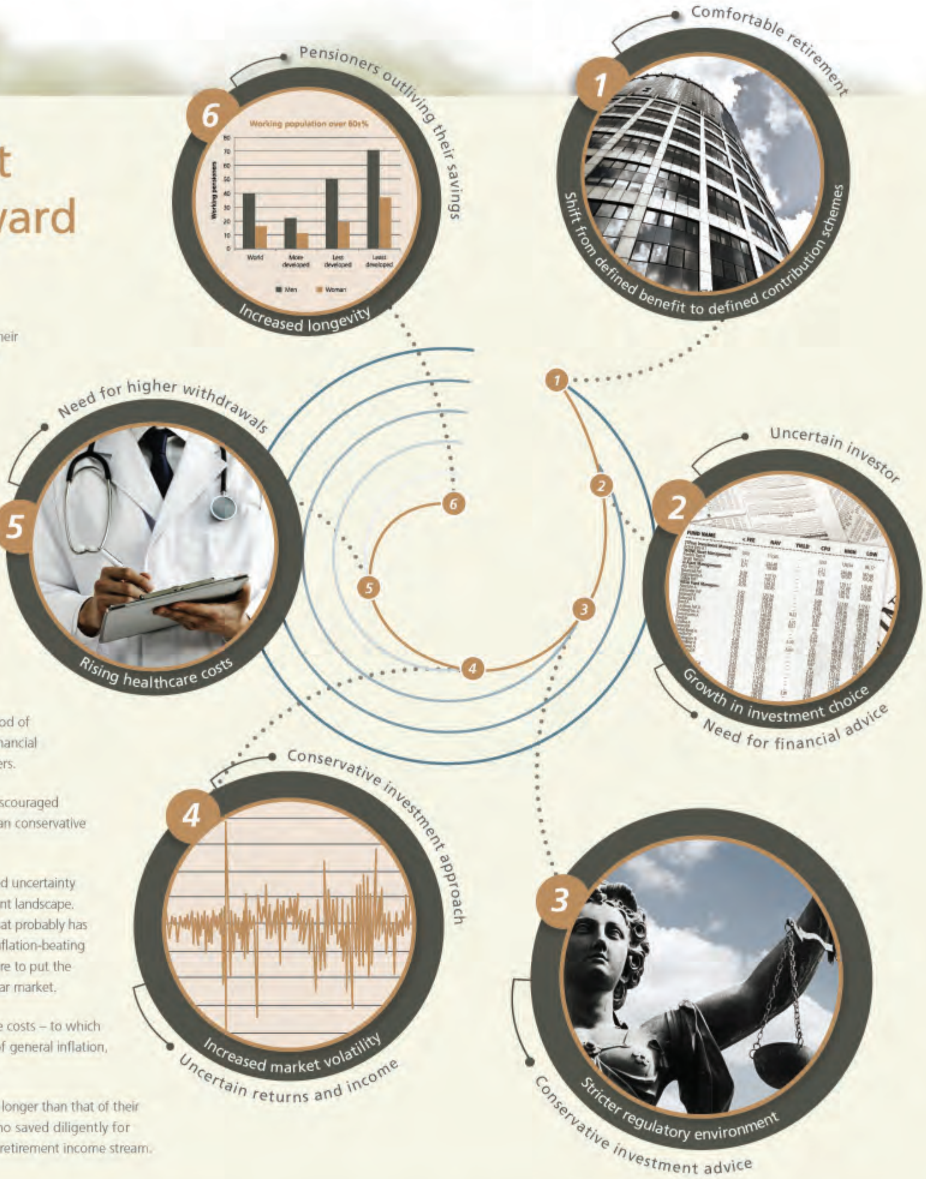
Investigate opportunities to customise our product offering to meet the needs of large brokers

Tying up to our first priority, we will investigate opportunities to extend our product offering to include a customised product to meet the needs of large brokers.

The Discovery Guaranteed Escalator Annuity –

the first annuity with all the benefits of a linked annuity and a guaranteed annuity

The retirement income downward spiral



1. Previous generations of retirees benefited from their employers' defined benefit (DB) retirement fund schemes, whereby they were guaranteed a growing income for life. There has been a subsequent shift to defined contribution (DC) schemes, resulting in a transfer of investment risk to individual retirees.

   This transfer of risk and the trends described in this diagram may mean that a pensioner who saved well for retirement could still end up outliving their savings.

2. The shift to defined contribution schemes was accompanied by an explosion in the number and variety of investment choices. For example, there are over 900 South African unit trust funds today, compared to 300 funds 10 years ago and 40 funds 20 years ago. This flood of choices left uncertain pensioners searching for financial advice, creating more demand on financial advisers.

3. A tighter regulatory environment has however discouraged financial advisers from making anything more than conservative investment suggestions.

4. This conservatism is further fuelled by the increased uncertainty and market volatility that defines today's investment landscape. The result is a conservative investment portfolio that probably has too little market exposure to generate attractive inflation-beating investment returns, or just enough market exposure to put the pensioner's investment funds at the mercy of a bear market.

5. The situation is further complicated by healthcare costs – to which pensioners are highly exposed – rising in excess of general inflation, which leads to the need for higher withdrawals.

6. Today, many retirees can expect a retired life 20% longer than that of their parents. The implication is that a pensioner, who saved diligently for retirement, is at increasing risk of an inadequate retirement income stream.

Current retirement products cannot reverse the spiral

To reverse the spiral, investors must:

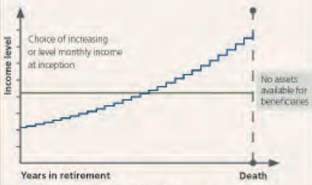
- manage income withdrawals in a responsible manner or have a guaranteed income for life;
- be given protection against market downturns;
- have exposure to market upside potential.

In addition, investors should be able to transfer remaining assets to their dependants. Current retirement products cannot fulfil all these requirements.

Today, most retirees invest in fixed annuities or linked annuities. While fixed annuities provide guaranteed income for life, pensioners do not benefit from positive market returns, and have no potential to pass assets on to their loved ones. Linked annuities on the other hand, provide exposure to market returns through the funds selected, allow flexibility in choice of income level, and facilitate the transfer of remaining assets to beneficiaries. This is why linked annuities have become very popular, but the downside of linked annuities is their exposure to market risk and longevity risk, which could leave pensioners with insufficient assets or income.

Benefit gaps in current retirement income products

How a fixed annuity works



- Increasing income (starts lower)
- Level income (starts higher but does not increase)

How a linked annuity works

- Required monthly income
- Actual monthly income where returns may become inadequate

	Fixed annuity products	Linked annuity products
Income management	Income guaranteed for life	Guidelines given, but income not guaranteed
Market volatility protection	No market risk	Market risk impacts income
Market upside participation	No upside potential	Returns based on fund selection
Transfers of assets to beneficiaries on death	No assets to transfer	Transfer of remaining investment value

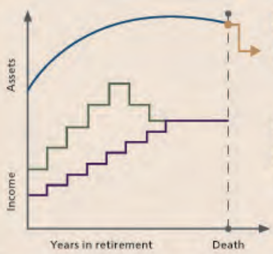
The Discovery Guaranteed Escalator Annuity is a new generation annuity designed to fill the benefit gaps in retirement income products

Using its investment and risk management expertise, Discovery has pioneered a new annuity design – the Discovery Guaranteed Escalator Annuity, the first annuity where investors can make a personalised income choice and have a guaranteed income for life. Where other annuity products fall short, the Discovery Guaranteed Escalator Annuity has all the features that can reverse the retirement income downward spiral.

Discovery Invest
Expertise in protecting and enhancing investment returns through the Escalator Fund technology

Discovery Life
Expertise in longevity risk management

The Discovery Guaranteed Escalator Annuity gives you the best of both worlds – performance and protection



1. Unlimited upside potential and downside protection
2. Remaining assets transfer to beneficiaries
3. Personalised income withdrawal
4. Guaranteed income for life

How the Discovery Guaranteed Escalator Annuity works

1. Make the fund selection from a full range of Annuity Escalator and Geared Annuity Escalator Funds.
2. Initial recommended annuity income percentage is set at 7.5% although the client can choose any percentage between 2.5% and 17.5%. Clients are automatically allocated a starting Guaranteed Minimum Income.
3. Clients can sit back as (a) their investment benefits from market growth and is protected from market declines, and (b) their Guaranteed Minimum Income increases.
   The growth in the client's Guaranteed Minimum Income depends on their Annuity Escalator Fund performance, their age and their choice of annuity income.
4. Every year clients choose a new annuity income percentage between 2.5% and 17.5% of the investment fund. The recommended maximum annuity percentage will be the highest of (a) 80% of the Annuity Escalator Funds' growth rate, or (b) your client's Guaranteed Minimum Income.
   Note: If your client chooses an annuity income percentage that is above the recommended maximum annuity percentage, their Guaranteed Minimum Income will reduce.
5. Clients repeat steps 3 and 4 each year.
6. Upon death, any remaining investment value will be paid to your client's beneficiaries.

The unique feature of this product is that the Guaranteed Minimum Income will grow if the Annuity Escalator Funds perform well and the annuity they take remains at a responsible level.

Always a reason to look up.

Our performance highlights for 2011

Significant increase in engagement levels across fitness and health categories

Important research completed to understand the scientific capability of Vitality

The DiscoveryCard continues to perform well with **8.9%** of the point-of-sale market share

"Vitality is the key strategic differentiator that forms the foundation of all Discovery businesses and importantly, helps the business to remain sustainable. It has an essential role in driving and facilitating further innovation through its ability to integrate products across the Discovery businesses. Further to this, Vitality has been proven to have a positive effect on mortality and morbidity for Discovery Life and to contain healthcare costs for Discovery Health. The overall value proposition for Vitality clients in terms of financial incentives and access to health and wellness partners is a key strategy in retaining customers and keeping lapses in check – an important driver of profitability for Discovery Life. Our data shows that highly engaged Vitality members, as reflected by Vitality status, are less likely to lapse their policies than members not on Vitality."

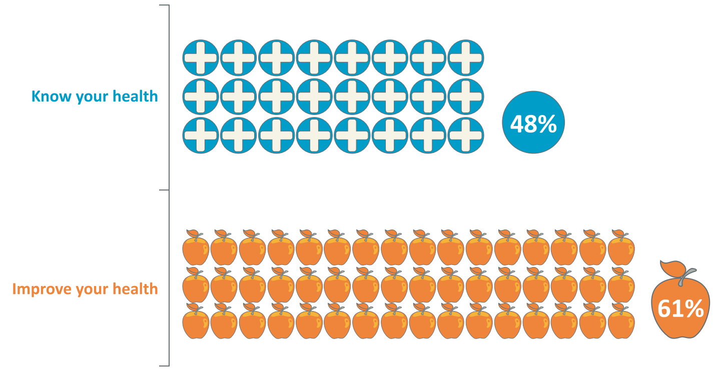
Discovery clients engage with Vitality

- Gym memberships increased to 400 000 actively training members
- HealthyFood™ activations exceed 260 000
- 12.5 million trolleys of HealthyFood™ products bought at Pick n Pay since the start of the benefit
- R200 million in HealthyFood™ cashbacks paid out since the launch of the benefit in 2009
- 298 589 Personal Health Reviews done during the year

The Vitality model in action

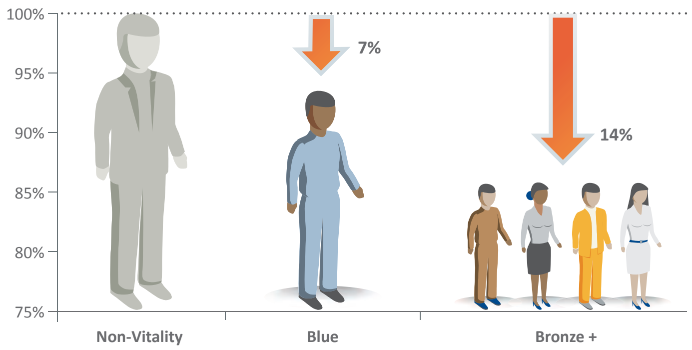
Vitality encourages participation in healthy activities

By refining incentive structures Vitality has successfully increased engagement over time.



Engaged Vitality members experience lower healthcare costs

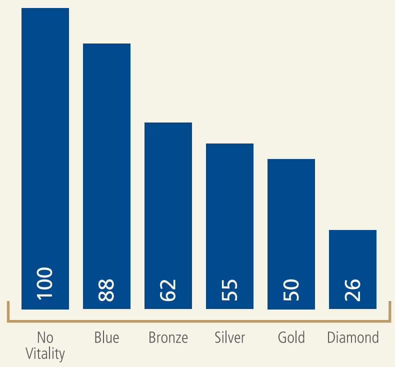
Studies show that Discovery Health claims are significantly lower for engaged Vitality members.



Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

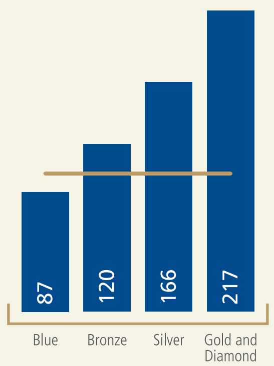
Our priorities for 2011	What we did during the year	Progress
Developing targeted product offerings	We launched KeyFIT, a wellness programme for KeyCare, our healthcare plan for the lower-income market	●
Investing in international capabilities	We have invested in the core capabilities of Vitality, with the view to roll this out to other markets	◐

Discovery Life relative lapse rate by Vitality Status
(%)



Members who look after their health and engage with Vitality are less likely to lapse their Discovery Life policy

Vitality Status distribution: 2011 as a % of 2009
(%)



Engagement levels with Vitality have increased substantially since 2009

Our key focus areas during 2011

Understanding the scientific link between Vitality engagement and costs for the health and life businesses

We continued our work in understanding the scientific link between Vitality engagement and mortality and morbidity experience in the life business, as well as the impact on risk-related costs in the health business, such as patients' hospital claims and length of stay. We published research in the American Journal of Health Promotion that analyses the ability of an incentive-based wellness programme such as Vitality, to engage people in more complex health and fitness activities and how likely they are to be admitted into hospital, as well as the resulting hospital costs.

This study follows the cross-sectional studies published by Vitality in 2008 that measured the impact of Vitality on healthcare costs. The 2011 study showed that there was a significant decrease of inactive members over a five-year period. Members who were physically active had a lower risk of being admitted into hospital over time compared to inactive members. The positive change in members' participation levels over a five-year period illustrates the power of the Vitality concept in driving behavioural change by providing access to health facilities and financial incentives.

In addition to the second longitudinal study, we also published a series of research papers in the South African Family Practice Journal with Professor Wayne Derman at UCT on the relation between lifestyle and diseases such as cancer, depression and hypertension. In the area of corporate wellness, we made progress in understanding the health status of South African employees and corporates with the first Healthy Company Index survey. This survey measured 100 corporate companies on employee wellness. Through this process we now not only have a snapshot of how healthy corporate South Africa is, but the survey also provided evidence of the validity of Vitality Age as a predictor of morbidity risk. Respondents whose Vitality Age was greater than their actual age, experienced 35% more doctor visits and 26% more hospital days. Importantly, the impact of a poorer health status is significant for a company's bottom line: those employees with a higher Vitality Age missed 28% more work days than their peers whose Vitality Age was less than or equal to their actual age.

The continuing evolvement of our scientific understanding of Vitality's role in making people healthier provides further drive to leverage Vitality's capability in our South African and international businesses.

Using the integration capability of DiscoveryCard to provide further value to clients

The DiscoveryCard adds compelling benefits and value for Vitality members. It also provides further integration opportunities for other businesses, such as Discovery Insure and VitalityDrive™, where a client can boost their cash back at DiscoveryCard partners. The quality and value proposition of the DiscoveryCard is evident in the card's market share performance. Launched in 2004, at a time when many non-bank competitors launched, the DiscoveryCard's performance has been excellent, having now captured 8.9% of the total point-of-sale market.

Our priorities for 2012

Leverage Vitality as the global thought leader in wellness

The impact of non-communicable diseases, or chronic diseases of lifestyle, on the social and economic development of nations, is increasingly becoming a global agenda item. Recently, the United Nations hosted a high-level meeting to develop a global response to the risk of chronic diseases of lifestyle. Attended by heads of state and governments, ministers of foreign affairs and health as well as representatives of civil society, this high-level meeting push chronic diseases of lifestyle as a global priority. Vitality, with its experience and expertise in using behavioural economics in a structured incentive programme to improve health, has an important role to play in contributing to wellness knowledge globally. A key priority for Vitality during the next year is to leverage Vitality as a global thought leader in wellness, and in this way, have a positive impact on society. This includes developing the scientific capability of Vitality further by doing further research on aspects such as behavioural economics, the use of incentives in promoting healthy behaviour and the link between a healthy lifestyle and chronic diseases of lifestyle.

Drive behavioural change through various platforms

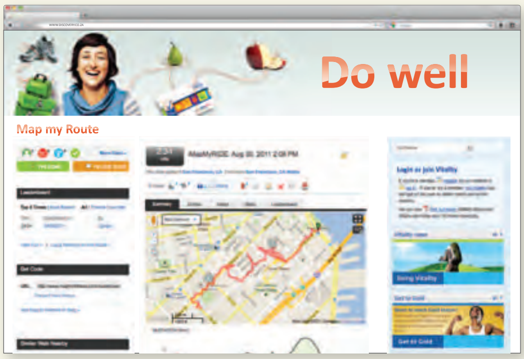
An objective for Vitality in 2012 is to encourage more people to adopt healthy lifestyle habits and giving them the support to do so. Social networks provide an opportunity for us to make it easier for people to start getting involved in their health, and importantly, to maintain the positive changes they implement. Research has shown that group dynamics can be effective in affecting behaviour for the better. For next year, we will be helping members on their wellness journey by facilitating health activities online. Our new online community will offer a broad range of tools that focus on wellness, nutrition, fitness, parenting, disease management and prevention.

Refine the key Vitality benefits to drive increased engagement

For 2012, we will refine key Vitality benefits to drive increased engagement and fitness activities. Based on our research findings of the five-year study of 300 000 Discovery Health and Vitality members, we will be encouraging members to up their fitness activities by increasing the minimum number of gym visits required. The long-term benefit for our members is substantial: the probability of a hospital admission in future drops significantly with increased physical activity.

Build on the success of the HealthyFood™ benefit

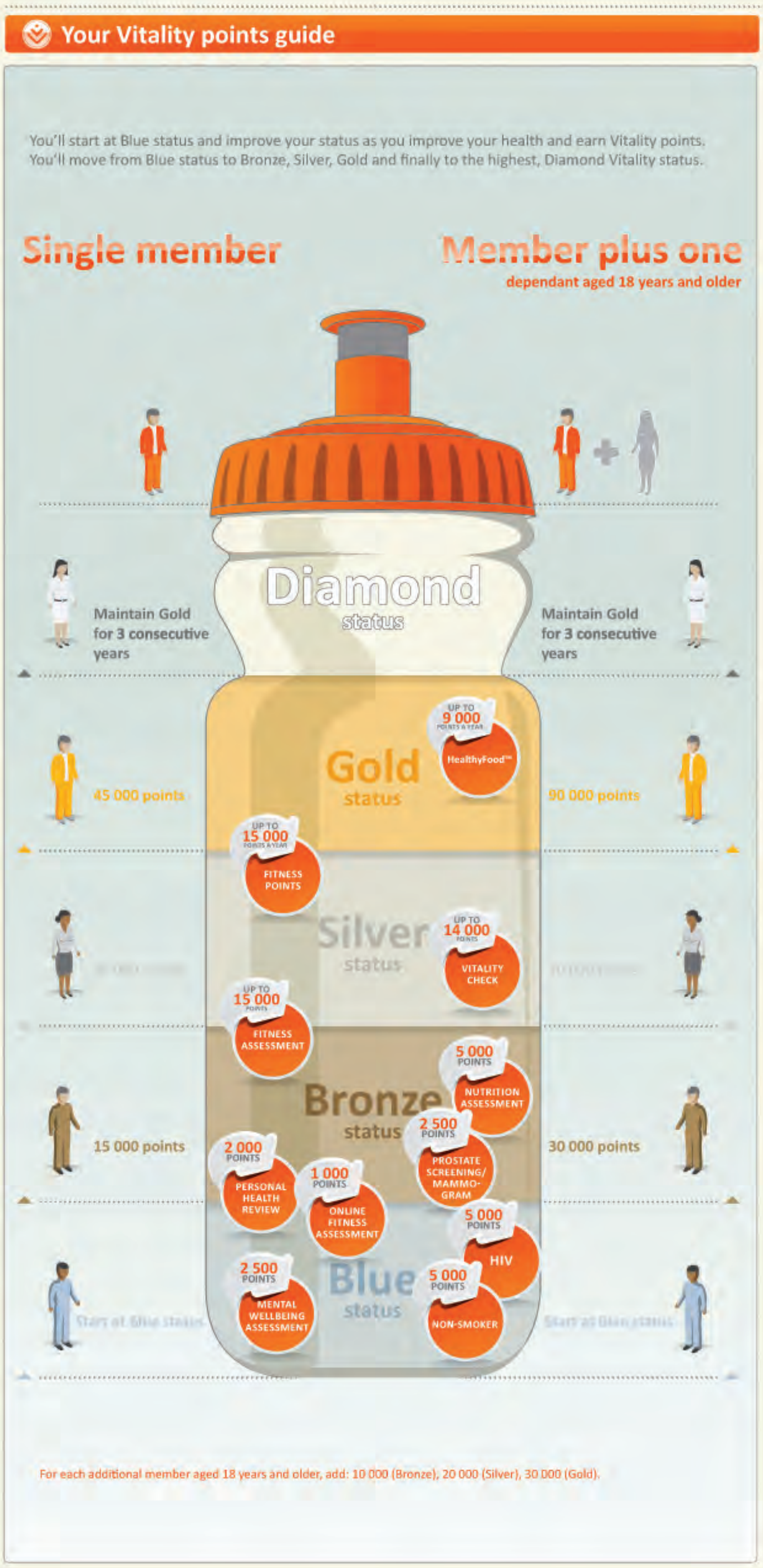
The HealthyFood™ benefit has been tremendously successful since it was launched in 2009. More than 260 000 members are registered on the benefit, illustrating the effectiveness of incentives in encouraging people to make healthier food choices. In 2012, we will use the HealthyFood™ model to reward healthy living in an additional two areas – HealthyCare™ products at Clicks and HealthyGear™ at TotalSports stores.



Vitality's new online community will offer a broad range of tools that focus on wellness, nutrition, fitness, parenting, disease management and prevention.

How Vitality makes a difference in people's lives


Buy into healthy living
Save up to 25% on HealthyFood™ at Pick n Pay, HealthyCare™ products at Clicks, and HealthyGear™ at adidas and TotalSports stores.
1
Activate the benefit and get
CASH BACK 10%
HealthyFood™
HealthyCare™
HealthyGear™
2
Know your health and get
CASH BACK 25%
PHR
Complete a Personal Health Review
Go for a Vitality Check
Have a Fitness Assessment
3
Shop and enjoy the rewards
Make healthier lifestyle choices
Get connected
Earn points for tracking your exercise, recording your meals and motivating your friends to improve their health.
Quit smoking
80%
80%
Earn 5 000 Vitality points for being a non-smoker.
Lose weight
30%
Weigh-Less
30%
Earn 1 000 points for a weight assessment and 4 000 points for reaching your goal weight.
UP TO 35%
UP TO 35%
Emirates
UP TO 25%
Europcar
Car rental
destinations:
Bangkok
Beijing
Cairo
Delhi
Dubai
Hong Kong
Istanbul
Kuala Lumpur
Maldives
Moscow
Mumbai
Shanghai
Singapore
Tokyo
Diamond 35%
Gold 30%
Bronze 20%
UP TO 50%
Accommodation
20%
Bus travel
Lifestyle rewards
RATES
BAG
GB
InvestBooster™
Reduced investment fees
Up to 40% of fuel spend back each month
Additional shopping and travel savings
Shopping rewards
UP TO 15%
CLICKS
10%
VitalityMall


Your Vitality points guide
You'll start at Blue status and improve your status as you improve your health and earn Vitality points.
You'll move from Blue status to Bronze, Silver, Gold and finally to the highest, Diamond Vitality status.
Single member
Member plus one
dependant aged 18 years and older
Diamond
status
Maintain Gold for 3 consecutive years
Maintain Gold for 3 consecutive years
Gold
status
UP TO 9 000 POINTS A YEAR
HealthyFood™
45 000 points
90 000 points
UP TO 15 000 POINTS A YEAR
FITNESS POINTS
Silver
status
UP TO 14 000 POINTS
VITALITY CHECK
UP TO 15 000 POINTS
FITNESS ASSESSMENT
5 000 POINTS
NUTRITION ASSESSMENT
Bronze
status
15 000 points
30 000 points
2 500 POINTS
PROSTATE SCREENING/ MAMMO-GRAM
2 000 POINTS
PERSONAL HEALTH REVIEW
1 000 POINTS
ONLINE FITNESS ASSESSMENT
5 000 POINTS
HIV
Blue
status
2 500 POINTS
MENTAL WELLBEING ASSESSMENT
5 000 POINTS
NON-SMOKER
Start at Blue status
Start at Blue status
For each additional member aged 18 years and older, add: 10 000 (Bronze), 20 000 (Silver), 30 000 (Gold).

Our performance highlights for 2011

We successfully completed the Standard Life Healthcare acquisition, and made significant progress in integrating the businesses

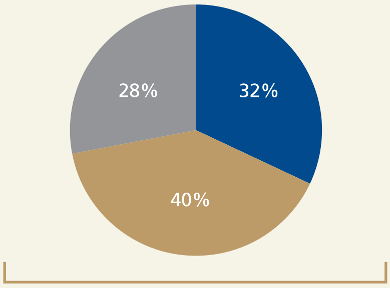
Excellent progress was made in relation to the loss ratio, lapse rate and expense roadmaps for PruHealth, while the former Standard Life Healthcare business outperformed the assumptions established during the due diligence

A maiden operating profit of **R61 million** was generated for the combined business, from a loss of **R296 million** in 2010 for PruHealth

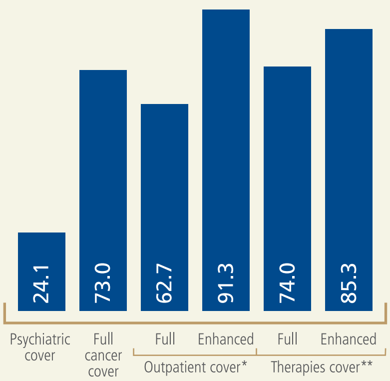
A new best-of-breed product range was rolled out that incorporates the strengths of both the PruHealth and Standard Life Healthcare product constructs

The UK private medical insurance (PMI) market remains highly complex, characterised principally by the difficult economic environment in the UK, but also by strong competition and high levels of product commoditisation. From an economic perspective, previous recessions have identified a strong correlation between the economic environment, PMI membership growth, and industry-wide loss ratios.

Members as at 31 July 2011 (24 268 lives)
(%)



Module take-up (SME)
(%)



* Specialist consultations, physiotherapy, diagnostic tests

** Chiropractic osteopathy, podiatry, acupuncture, homeopathy and two consultations with a dietician

During the current recession, this has manifested in a 10% reduction in the number of insured members, with industry loss ratios peaking at nearly 79% in 2009 and remaining high at 77.5% in 2010. Currently, 9% of the UK population has private medical insurance, down from a high of 12% in 2009.

Against this backdrop, PruHealth made significant progress over the past year in relation to all of the key performance drivers within the business, while the integrated product philosophy and new modular product structure continued to provide unique value in the highly commoditised market. The net effect was the generation of a maiden profit of R61 million for the year. Importantly, the integration process with the former Standard Life Healthcare business has allowed for the identification, and roll out, of best practice processes across the enlarged base, and this investment has created a robust foundation for future growth.

Our key focus areas during 2011

Successfully completing the integration of Standard Life Healthcare

The acquisition of Standard Life Healthcare was completed on 1 August 2010, with a detailed integration plan developed in order to ensure an orderly migration of people, systems, risk management capabilities and intellectual property. Significant progress was made in respect of each category, with a comprehensive process undertaken at the people level to ensure commonality of values and vision, as well as the identification of best-practice processes across both businesses to assist with the establishment of the migration plan.

Utilising the scale of the newly-formed entity to create a better healthcare system for PruHealth members, at lower cost

Scale in private healthcare is critical as a means to enhance members' access to leading providers and healthcare facilities at competitive cost. The acquisition of Standard Life Healthcare increased PruHealth's membership base from 24 268 lives at the time of the acquisition, to around 634 691 lives currently. This scale also significantly improved PruHealth's negotiating power in respect of hospital costs and its Vitality partner network, as well as enhanced its unit cost position. Further efficiencies are expected going forward as the migration plan further develops.

Leveraging the strengths of both PruHealth and Standard Life Healthcare to create the leading PMI provider in the UK

The enlarged business has leveraged the capabilities of PruHealth and Standard Life Healthcare, mainly in the areas of product, service and clinical risk management, to create a leading PMI platform in the UK. From a product perspective, a new product was launched during the year that incorporates PruHealth's Vitality integration, with Standard Life Healthcare's product modularity and flexibility. Initial receptivity to the product has been excellent.

From a clinical risk management perspective, tools and protocols from across PruHealth, Standard Life Healthcare and Discovery Health have been combined to create a sophisticated risk management environment that removes inefficiencies in the system, as well as leverages Discovery Health's network methodologies to enhance access to quality of care at affordable cost.

Tightly managing the stand-alone PruHealth business against financial roadmaps for the loss ratio and expenses

Excellent progress was made over the period in managing the key drivers of performance of the stand-alone PruHealth entity, principally the loss ratio and expense rate. In this regard, the stand-alone loss ratio, including Vitality costs, improved by 17% over the period, in line with assumption, while at an aggregate level, expenses reduced by 11% in absolute terms over the period, with further efficiencies forecast for 2012. In addition, we focused on enhancing the quality of the book through a conscious decision to reduce our exposure to high-risk lives.

PruHealth's new healthcare plans aim to meet the needs of consumers

Structured flexibility

- Plans to put individuals and businesses in control
- Work with financial advisers to create a plan suitable to a client's set needs and budget
- Clients choose Core Cover and add a range of cover enhancements, excess levels, hospital lists and underwriting options
- Plan can adapt to a member's needs every year

Transparency

- New Cover Check commitment in response to clients' perception of how insurers use small print to avoid claims payments
- A commitment to communicate what is covered and when limits and exclusions apply

Our priorities for 2012

Extend PruHealth's leadership position in the area of integrated health and wellness

PruHealth was the pioneer of integrated health and wellness solutions in the UK, launching its Vitality-integrated model in 2004. As is the case with Discovery in South Africa, Vitality serves a foundational role for PruHealth by creating positive selection and lapsation effects, as well as helping members to maintain and improve, their health. The focus for the coming year will be to balance the clinical, scientific and actuarial rigour of the Vitality programme with a powerful incentive set that motivates appropriate behaviour change, as well as encourages members to engage more fully with the Vitality proposition.

Create an engaging online and social media presence to take advantage of the digital revolution

The UK has seen a dramatic shift towards the use of digital media in all facets of people's social and consumer lives, a trend that has been largely independent of demographic factors. The UK ONS Opinions survey from 2010 shows that access to social media is driving active consumer behaviour, sharing with and influencing peers about buying decisions.

The number of UK internet users increase year-on-year and is likely to continue. The UK government is targeting broadband rollout with a £830 million strategy. To take advantage of this emerging social trend, PruHealth is investing in resources and technology that will create an engaging and intuitive consumer interface, as well as allow for sophisticated segmentation analyses and targeted distribution efforts. This investment is expected to provide a powerful individual market distribution channel for PruHealth in the future.

Finalise the operational integration between PruHealth and Standard Life Healthcare

Excellent progress has been made in identifying, and implementing, the roadmap for integration across critical functions such as people, systems, products and risk management. The focus for the coming year will be to finalise the operational integration of the businesses, as well as remove duplication in the current operating environment in order to realise additional operating efficiencies. The combination of the best-of-breed processes across PruHealth and Standard Life Healthcare will create a robust platform for future growth in the new PruHealth business.

Full cover

- Full cover option gives access to the latest drugs and treatments
- No unexpected shortfalls

Leading service

- A commitment to UK-based service
- Knowledgeable customer care teams
- Support for financial advisers
- Regular face-to-face contact and specialist support through dedicated new business, retention and corporate teams
- Investment in training and qualifications of customer care, sales and support teams
- Dedicated technical marketing team provides support material on industry issues

Vitality

- Core Cover facilitates access to Vitality for all members
- Basic offering includes activities and partner discounts that help members get and stay healthy
- VitalityPlus as an additional enhancement focuses on two areas: exercising and eating well. Members can benefit from reduced gym membership fees and buying healthy food options from Sainsbury's
- The Personal Health Fund enhancement for Business Healthcare schemes is an innovative way to help employees pay for everyday healthcare expenses which aren't traditionally covered by health insurance

Our performance highlights for 2011

New business API increased by **28%** from **R227 million** to **R290 million**

Value of new business at **R113 million**, with in-force business at **R169 million**

PruProtect delivered after-tax profit of **R7 million** in the second half of the financial year

In-force policies increased by **92%** from **35 915** to **68 880**

Average new business daily count increased from **163** to **241**, resulting in higher new business margins

Mortality experience and lapses were significantly lower than the EV assumption

We received the Defaqto 2011 Award for our Income Protection and Critical Illness products, and we received the Innovation Award at the 2011 Protection Review, as well as the Professional Adviser 2011 Award for the Best Individual Protection Provider

PruProtect's business model closely follows the successful Discovery Life model and illustrates our ability to successfully export our business model to other markets. In the highly competitive and commoditised UK life assurance market, PruProtect has performed exceptionally well. The traction in our financial performance in the second half of the year illustrates that the successful Discovery Life model is appealing to UK consumers who typically have a poor perception of protection and long-term insurance products. Consumer demand for fairer and more dynamic life assurance products is highly suitable for the PruProtect business model. Our focus on risk-only insurance products with a Vitality underpin means consumers have more dynamic and comprehensive cover in a market where traditional insurers still combine risk and investment products.

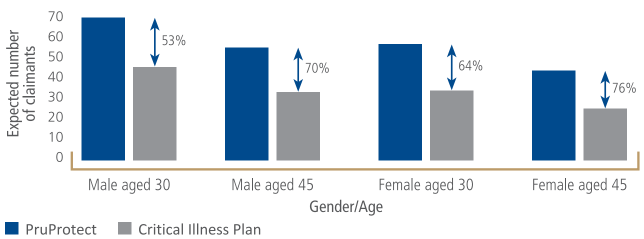
Key facts about the UK insurance industry

- The UK insurance industry is the third largest in the world and the largest in Europe, helping individuals and businesses protect themselves against the everyday risks they face
- It pays out over £164 million per day in pension and life insurance benefits and over £60 million per day in general insurance claims
- The industry is an important contributor to the UK's economy: it manages investments of £1.7 trillion, over 26% of the UK's total net worth and contributes £10.4 billion in taxes to the Government
- It employs around 290 000 people in the UK alone and is a major exporter, with 28% of its net premium income coming from overseas business
- In terms of protection and life insurance products, the UK has 29.6 million protection term and whole life policies in force, with consumers receiving benefits of about £32.7 million per day
- The UK has 309 insurers in the long-term insurance business, such as investments, pensions and protection
- Premium income for the life and pension business was £110 billion in 2010 (for members of the ABI)

Source: www.abi.org.uk

Within this market, we offer innovative risk benefits that enable multiple ancillary benefits for each policy, a franchise distribution channel that focuses on high-quality advice to clients and an efficient capital model that leverages the Prudential Life Insurance Fund. Vitality forms the foundation of the PruProtect product construct: it enables dynamic pricing that allows consumers to reduce their premiums if they look after their health, while at the same time improving the mortality and morbidity experience of the UK life business.

Likelihood of suffering a condition covered before the age of 65



Based on a sample of 100 policyholders. Source – Hannover Life Re UK February 2010

- *Estimates are based on Hannover Life Re UK's interpretation of general population incidence rates and their best estimate view of future trends. Incidence rates for the entire population may be different to those of lives who take out life insurance products.*
- *The typical Critical Illness product is a comprehensive one and covers most conditions seen in the market.*
- *PruProtect estimates are based on the PruProtect Comprehensive Plan.*

CASE STUDY

The impact of our risk-only product design on consumers is significant: Hannover Life Re UK, part of one of the leading reinsurance groups in the world, has estimated the likelihood of a payout for clients suffering a condition on our Serious Illness Cover (SIC) versus traditional critical illness (CI) policies. The results show that clients are up to 76% more likely to receive a payout if they have a PruProtect policy (based on a 45-year-old female). We are able to do this because the amount we pay is based on the severity of the illness and the impact on their lifestyle. We also cover more conditions and provide cover at an earlier stage.

Key to symbols ● Priority achieved ◐ Priority ongoing ○ Priority not yet started

Our priorities for 2011	What we did during the year	Progress
Identify and maximise integration opportunities across Vitality	We launched VitalityPlus in the market, as well as innovative benefit enhancements that help consumers customise their cover according to their needs. We do, however, need to leverage the integration opportunities of Vitality further and this will be a key focus for us during the next year	◐
Building and strengthening our distribution capabilities	We focused on building the quality of our distribution channels through increased technical and marketing support	◐

Our key focus areas during 2011

Product enhancements to drive new business

During March this year, we launched seven new products that cover the protection spectrum and give consumers the flexibility and choice in designing their cover according to their needs. These new products have significantly contributed to new business margins in the second half of the financial year.

The Education Cover product, for example, is modelled on the Discovery Life Global Education Protector, and provides cover for education needs in the event of death or disability. The Family Income Cover, also launched this year, provides cover for a family's living costs in the case of a life-changing event. PruProtect further leverages the integration capability with Vitality with the launch of VitalityPlus that gives UK consumers the opportunity to improve their health with discounts at Virgin Active and LA fitness gyms. By July 2011, the new products launched during the year have contributed over 30% in new business volumes.

A focus on improving the quality of the franchise distribution model

During the year, the quality of production at our franchises has been a key priority. A focus on driving quality new business through increased technical and marketing support for financial advisers, has resulted in franchises exceeding the production targets set in 2011. Better quality new business also impacted the claims and expense experience positively – both metrics have performed better than assumptions made for the period. Our support for financial advisers includes sophisticated online and marketing tools that enable them to provide high-quality and excellent service and advice to clients.

Our priorities for 2012

A focus on growing our distribution footprint

In 2012 we will focus on increasing the scale of our distribution footprint through new franchises and improving the relationship with our distribution networks.

A continued focus on innovation to drive new business

Product innovation to meet clients' needs remains a key priority for PruProtect. Our aim is to bring new products to the UK market at the end of 2011, based on the successful ancillary products of Discovery Life in South Africa. The integration opportunities of Vitality must be leveraged further.

A focus on innovation in service delivery and support for financial advisers

We will continue to deliver service innovation and support for financial advisers to ensure high-quality advice for clients. We understand the need for proper and sound financial advice that not only meets their needs but also ensures clients are sufficiently protected.

PruProtect business model

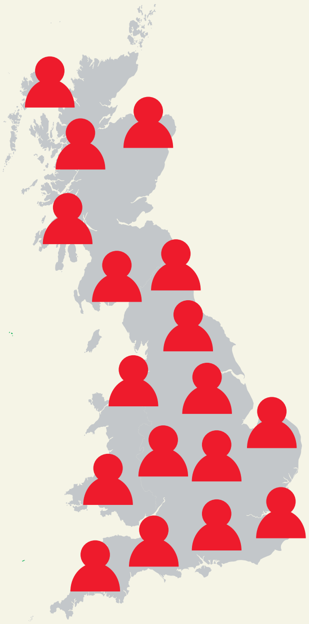
Vitality chassis and dynamic pricing

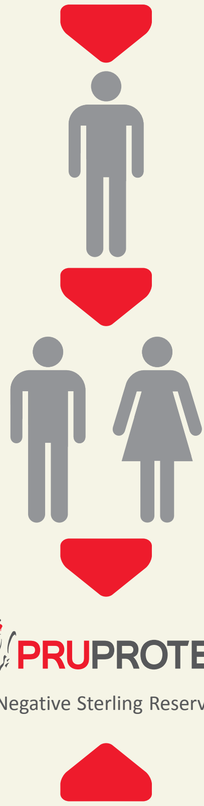
Innovative risk benefits

Franchise distribution

Capital model

Vitality status	Premium impact
• Bronze	0%
• Silver	-1.0%
• Gold	-1.5%
• Platinum	-2.0%





PRUPROTECT

Negative Sterling Reserve

PRUDENTIAL

Positive Sterling Reserve

Our performance highlights for 2011

We successfully launched Discovery Insure in May 2011

The initial traction has been excellent: the average daily new business API exceeded **R1 million**

Our client profile illustrates the success of Discovery's integrated model: **98%** of Discovery Insure members have a Vitality policy, **80%** are Discovery Health members, **60%** have a DiscoveryCard, and **35%** have a Discovery Life policy

"Encouraging good driving behaviour and improved road safety, made possible by Discovery Vitality's expertise in applying behavioural economics to insurance, make up the vision for Discovery Insure. Fundamental to our approach is the use of a robust and valuable incentive structure to reward clients for good driving behaviour. Through behavioural economics and our experience in applying this to insurance, we have successfully developed an incentive-based insurance model. Through a combination of financial incentives and increased client knowledge, an incentive-based model structurally reduces the cost of insurance and improves the client's overall value proposition."

Our key strategies with the launch of Discovery Insure

Structurally reduce the cost of insurance through positive behavioural change

Our objective is to reduce the cost of insurance by using the principles of behavioural economics. By providing the tools and incentives required to achieve a positive change in driver behaviour, we are able to structurally reduce the cost of motor insurance for good drivers. Increased driver awareness and ability results in cost savings and combined with a reduction in accident claims, the value proposition for clients is significantly higher.

Leverage our experience in behavioural economics to encourage good driving behaviour and improved road safety

We apply advanced telematics technology to ensure that our clients are safer and better protected on South African roads. Our focus on encouraging better driver behaviour is aimed at contributing to safer roads. The automatic dispatch of emergency services after an accident as well as other pro-active vehicle and family protection tools help to make the roads safer for Discovery Insure clients.

Channel actuarial and risk management savings to significantly reduce the cost of fuel for clients

The VitalityDrive™ programme integrates the actuarial and financial benefits of better driving with an efficient payment mechanism and fuel network to give clients unprecedented fuel rewards. A saving of up to 40% on fuel significantly reduces the total cost of vehicle ownership and offsets the costs of vehicle insurance.

Discovery Insure: a comprehensive product offering

Key to Discovery Insure is providing high-quality comprehensive protection for our clients. An important requirement for the product design was to offer comprehensive insurance with seamless access to benefits and services. This is made up of five key features:

1. Comprehensive insurance, covering motor and non-motor assets with seamless access to benefits and services through Discovery Insure's service platform: SmartService™
2. VitalityDrive™ incentivises better driving and encourages positive behaviour change
3. Clients receive immediate rewards on their monthly fuel spend
4. The use of telematics technology facilitates a set of safety features
5. Structured flexibility allows clients to customise their cover according to their needs.

VitalityDrive™ draws on the latest technology and our expertise in behavioural economics to give clients more value and change their behaviour

VitalityDrive™, our incentive-based programme to improve driving behaviour, uses the latest telematics technology and proprietary behavioural algorithms to develop a scientific measure of driver behaviour. This scientific measure – the Driver Quotient™ – encapsulates the key measures of driver intelligence and behaviour. We measure the Driver Quotient™ based on the number of points a client earns for exhibiting good driver behaviour, improving their knowledge and awareness and ensuring their vehicle is safe – similar to the Vitality model of rewarding clients for undertaking positive health activities. The benefits are compelling and unique: VitalityDrive™ clients can earn up to 40% fuel rewards in cash, as well as 15% discount on local travel and up to 15% DiscoveryCard cash back.

Key trends in the market that made Discovery's entry into the market favourable

1. The relevance of Discovery's behavioural economics experience in short-term insurance

Road accident statistics in South Africa show that 49% of accidents can be attributed to inappropriate and poor driving and 9% to vehicle safety. These two factors are both behavioural and therefore modifiable. Discovery's expertise in applying behavioural economics to product structures is key in impacting road safety positively.

2. The emergence of telematics technology as a premium-rating factor

Telematics technology has emerged in the short-term insurance industry as a means to rate premiums according to a driver's behaviour. Combined with behavioural algorithms that measure how well a person drives, Discovery Insure now rewards good driver behaviour – a first step in understanding what constitutes good driving.

3. The negative impact of the rising and volatile fuel price on the cost of vehicle ownership

Through our experience in providing structured incentives to encourage behavioural change, we are able to provide tangible and valuable rewards through a rebate on fuel costs.

CASE STUDY

'How would you rate your driving?'

A survey done among Discovery clients in 2011 shows that people's perception of their driving behaviour is far better than the actual experience. Only 2% of respondents indicated that they drive poorly while the actual experience was 26%. Of all respondents, 81% indicated that they drive well or excellently but the actual driving experience was far less at 33%. Taking into account that the majority of road accidents are caused by inappropriate or poor driving, the results of this survey are alarming.

Our priorities for 2012

Drive new business to reach scale

A key priority for Discovery Insure is to drive new business volumes to achieve scale during the next year. Our initial traction in the market has been excellent with the average daily new business API exceeding R1 million. Our ability to integrate different products and the total Discovery value proposition for clients, present an excellent opportunity for Discovery Insure to achieve scale.

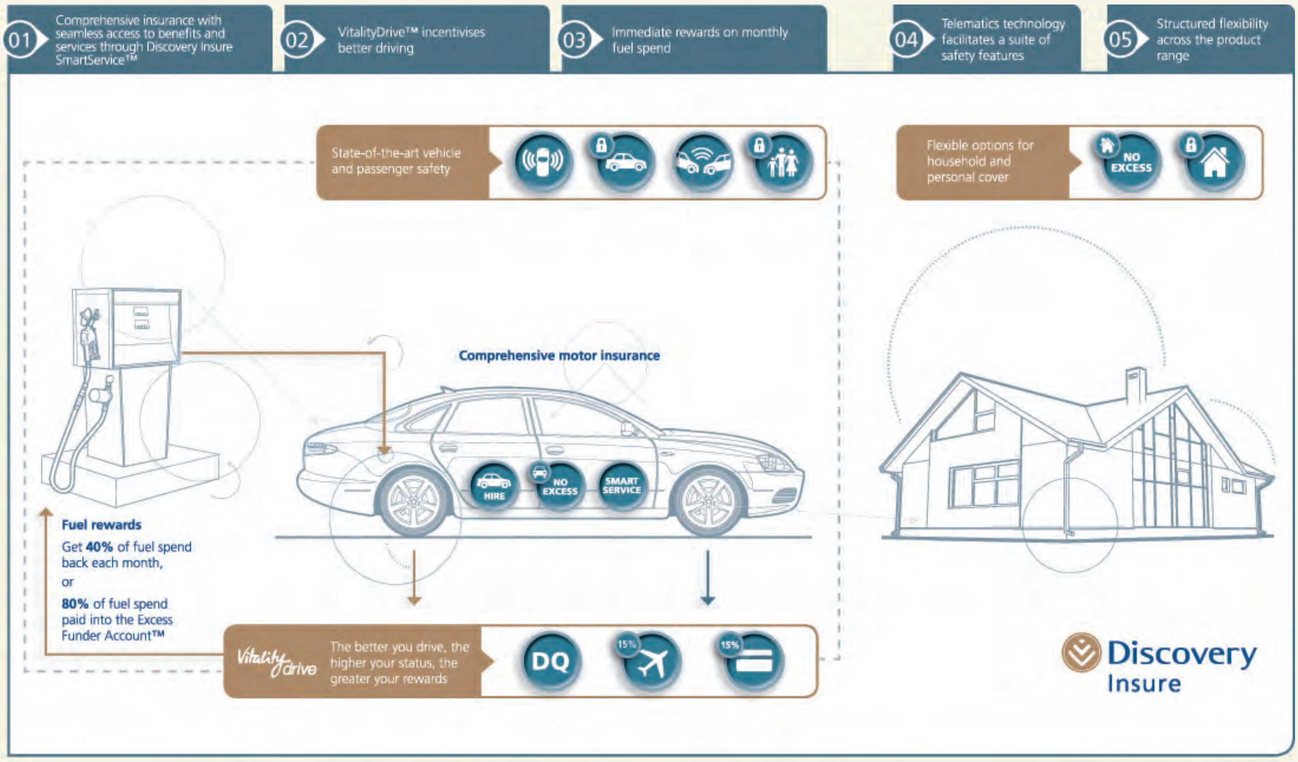
Ensure service excellence and capitalise on learnings from all Discovery businesses

Our aim is to offer Discovery Insure clients the highest level of service. The service and operational efficiencies achieved in the rest of the business – especially in Discovery Life and Discovery Health – present an opportunity for Discovery Insure to replicate successful service and operational models and strategies.

Focus on continuous innovation and link to behavioural science

While we believe the Discovery Insure and VitalityDrive™ product construct is at the forefront of innovation in short-term insurance, our priority is to drive continuous innovation for the benefit of our clients. As we reach further scale, the impact of behavioural economics on driver behaviour should become more evident, thereby promoting the scientific capability of VitalityDrive™.

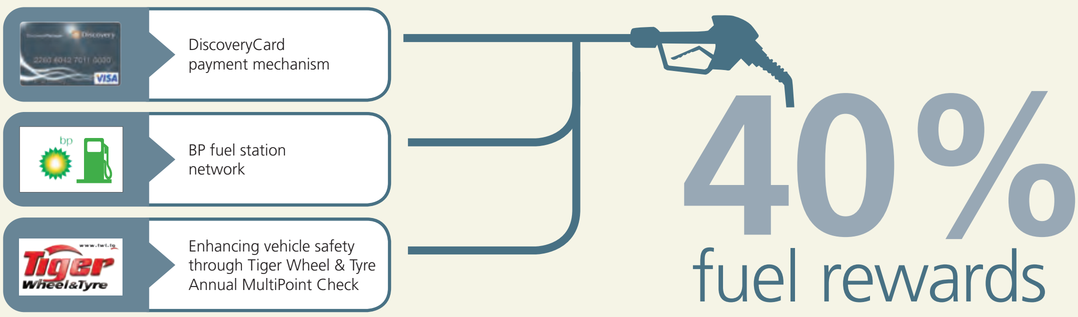
Discovery Insure



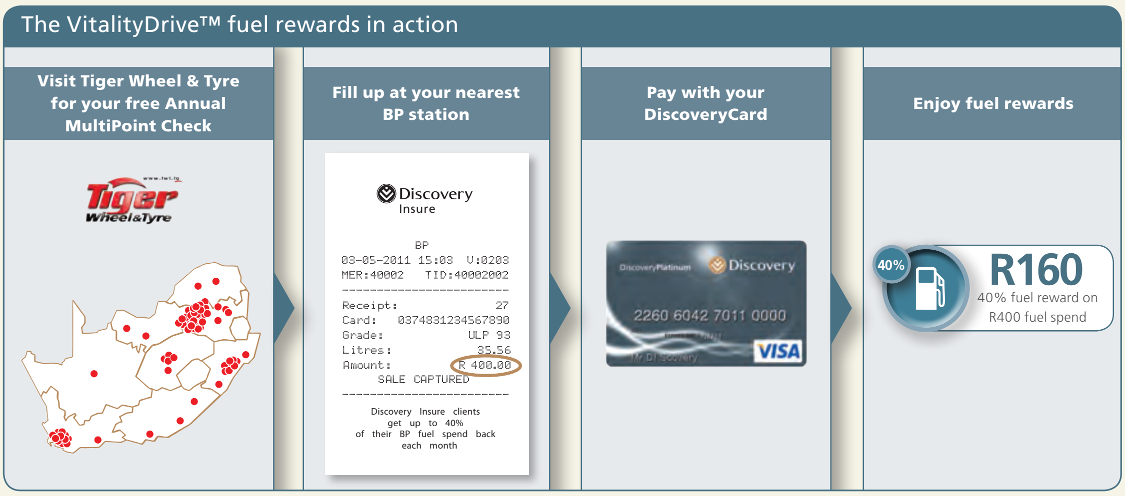
Discovery Insure and VitalityDrive™ product platform

By combining the efficient payment mechanism of the DiscoveryCard, the BP fuel station network and enhanced vehicle safety through the Tiger Wheel & Tyre Annual MultiPoint Check, VitalityDrive™ provides valuable fuel rewards to clients.

Combining proprietary assets in networks to deliver powerful fuel rewards



Activating VitalityDrive™ entitles clients to immediate rewards of 10% on their BP fuel spend. Completing a Tiger Wheel & Tyre Annual MultiPoint Check boosts the fuel reward to 25%. VitalityDrive™ clients who have a DiscoveryCard can receive an additional 15% reward on their fuel spend at any fuel station. The combination of the BP fuel network, DiscoveryCard payment and Tiger Wheel & Tyre Annual MultiPoint Check results in a 40% fuel reward.



Discovery Insure clients enjoy unprecedented rewards

The Discovery Insure Client Journey

Discovery Insure and VitalityDrive™ offer unique benefits and services across the client spectrum.

DAVE'S journey with Discovery Insure

1. Takes out a Discovery Insure Comprehensive motor plan
2. Activates VitalityDrive™
3. Uses the flexible cover options for his personal and household cover

SMART SERVICE — Jan

SmartService™ conveniently installs the DQ-Track™, Discovery Insure's telematics device, in Dave's vehicle at no extra cost, at his office premises.

DQ

DQ-Track™ starts to measure the way Dave drives. He will start to earn DQ Points™ based on his driving behaviour.

Feb

Every VitalityDrive™ client is on Neutral status for their first month. Dave can use this time to earn DQ Points™ by doing the vehicle safety and awareness checks. He continues doing these on a regular basis.

	DQ Points™
Tiger Wheel & Tyre Annual MultiPoint check (100 DQ Points™; 100 DQ Points™ for passing)	200
Annual car service	50
Annual driver safety review	75
Quarterly online quiz	75
Bi-annual pro-active driving course	100

March April

The more DQ Points™ Dave earns, the higher his VitalityDrive™ status. Based on his driving behaviour and points-earning events, he remains on Engaged status, with 800 DQ Points™ from February until the end of the year.

May

Aug Sep

NO EXCESS

A lightning strike damages Dave's television and microwave. Dave is covered in full for his damages, with no excess payable. Dave also uses an upfront household inventory, so his claim is not averaged.

Oct Nov

Using the DQ Mapper™ and online information, Dave improves his driving towards the end of the second year. Along with the 500 DQ Points™ he earns from regular activities, he moves up to Advanced status for his third policy year.

VitalityDrive™ Status Monitor

Dec

Dave's experience in Year 2

Discovery Insure premium	R 903 pm
VitalityDrive™ premium	R 49 pm
	R 952 pm
Total annual premium	**R 11 424**
Fuel rewards	R 7 680
DiscoveryCard rewards	R 1 350
Vitality local travel rewards	R 375
Total annual rewards	**R 9 405**
Rewards as % of premiums	**82%**
Claims paid	R 10 000
Excess Funder Account™ balance at year end	R7 680

Year 3

Jan

80% EXCESS FUNDER ACCOUNT

Dave uses the Excess Funder Account™ to increase his motor excess from R2 000 to R8 000 at the beginning of his third year. This reduces his policy premium from R903 per month to R829 per month.

Feb Mar

15%

With the move to Advanced status, Dave's DiscoveryCard rewards and Vitality local travel discounts double to 15%.

Apr May

Unfortunately Dave is involved in an accident while driving home from work.

Pro-active accident support

The DQ-Track ImpactAlert™ provides immediate notification of the incident; facilitating the dispatch of emergency support to the scene of the accident.

The case study below illustrates these benefits in action and the tangible value added to clients. Dave is a 40 year old with a R150 000 car and household contents worth R150 000. He spends R800 on fuel a month, R5 000 a year on local holidays and R1 500 a month on a cellphone, home expenses, clothing, music and books.

Jun | 40% | Jul | Aug | Sep | Oct | 7.5% | Nov | Dec

The VitalityDrive™ fuel rewards means Dave can get 40% of his fuel spend at BP paid back to him in cash with his DiscoveryCard. He saves R320 per month in fuel through **VitalityDrive™**.

Dave can log on to the **DQ Mapper™** to analyse his historic driving records.

VitalityDrive™ Status Monitor

Dave has access to DiscoveryCard retail partners and Vitality local travel discounts of 7.5% based on his Engaged **VitalityDrive™** status.

Dave's experience in Year 1

Discovery Insure premium	R 903 pm
VitalityDrive™ premium	R 49 pm
	R 952 pm
Total annual premium	**R 11 424**
Fuel rewards	R 3 680
DiscoveryCard rewards	R 1 275
Vitality local travel rewards	R 375
Total annual rewards	**R 5 330**
Rewards as % of premiums	**47%**

Year 2

Jan | 80% Excess Funder Account | Feb | Mar | 7.5% | Apr | May | Jun | Jul

At the beginning of his second year, Dave activates the **Excess Funder Account™**, doubling his fuel rewards to R640 a month. His **Excess Funder Account™** balance is available to fund his motor policy excess in the event of a claim.

He remains on Engaged status for the rest of the year and continues earning the same Vitality local travel and DiscoveryCard partner rewards.

Roadside assistance, automatically included in his policy, helps Dave get his car started when his battery runs flat one afternoon.

Jun | Jul | Aug | Sep | Oct | Nov | Dec

Dave's experience in Year 3

SMART SERVICE

SmartClaims™ takes the hassle out of claiming

Fortunately Dave is not seriously injured, but his vehicle is severely damaged. An Avis Point-to-Point vehicle takes him home and Discovery Insure arranges for his car to be towed to an approved repairer. Discovery Insure also arranges for his **Avis hire car**.

HIRE

...and keeps Dave on the move

Discovery Insure calls Dave to let him know when he can collect his repaired car at his nearest Avis branch.

80% EXCESS FUNDER ACCOUNT

Excess Funder Account™ covers his policy excess

Dave has R12 160 in his **Excess Funder Account™** at the end of July when his vehicle is repaired. R8 000 is used to cover the policy excess, leaving a balance of R4 160 at the end of July.

Discovery Insure premium	R 829 pm
VitalityDrive™ premium	R 49 pm
	R 878 pm
Total annual premium	**R 10 536**
Fuel rewards	R 7 680
DiscoveryCard rewards	R 2 700
Vitality local travel rewards	R 750
Total annual rewards	**R 11 130**
Rewards as % of premiums	**106%**
Claims paid	R 30 000
Paid from Excess Funder Account™	R8 000
Excess Funder Account™ balance at year end	R7 360

Our performance highlights for 2011

We developed an important strategic partnership with Humana Inc, one of the USA's largest health and supplemental benefit companies, to distribute the Vitality wellness solution to Humana members

Committed membership of **480 000**, six months after we concluded the agreement, brings the number of members for The Vitality Group to **680 000**

The C. Everett Koop National Health Award was awarded to Alcon for its corporate wellness initiatives offered through The Vitality Group

Clients of The Vitality Group have higher engagement levels than the industry average. Recent research from Mercer Human Resource Consulting shows the average Health Risk Assessment completion at **49%** for 38 different USA employers who are with a range of wellness competitors. The average for our clients is **59.8%**

We delivered the business requirements to launch HumanaVitality in the USA six months after the agreement was concluded

"Chronic diseases of lifestyle and their social, economic and developmental impact on nations are increasingly coming to the fore. On 19 and 20 September 2011, this issue was on the global agenda at a high-level meeting of the United Nations. Through this meeting, which aims to set a new international agenda on non-communicable diseases, recognition is given to the global challenge of chronic diseases of lifestyle. It is estimated that diseases such as heart attacks, strokes, cancers, diabetes and chronic respiratory conditions account for over 63% of deaths in the world today."

Our key focus areas during 2011

Further developing The Vitality Group's international capabilities

During the past year, The Vitality Group made headway in further developing a foundation to build a quality business in the USA. In February this year, we established an important strategic partnership with Humana Inc, one of the largest providers of health and supplemental benefits in the USA. Through the agreement a new entity – HumanaVitality – was capitalised in which Discovery holds 25%. In addition, Humana acquired a 25% stake in The Vitality Group. Through HumanaVitality, Humana Medical Plan members will now automatically have access to the Vitality programme. Humana is a full-service benefits and well-being solutions company, offering a wide array of health, pharmacy and supplemental benefit plans for employer groups, government programmes and individuals, as well as primary and workplace care through its medical centres and worksite medical facilities. The company has approximately 10.2 million medical members, 7.1 million specialty members, and more than 300 medical centres and 240 work site medical facilities.

In July 2010, we entered into an agreement with Wellness & Prevention Inc, a Johnson & Johnson company, to provide incentive delivery, tracking and reward services. Further to this, we did considerable work on our systems and infrastructure to support the increasing scale of The Vitality Group and to ensure excellent service levels to clients. To make it easier for members to achieve their health and fitness goals, we added new partners to our existing networks. TrainingPeaks, for example, is an interactive online training and nutrition tool that helps members measure and verify their fitness activities.

Delivering on HumanaVitality requirements

We successfully delivered on the HumanaVitality requirements six months after the agreement was concluded. This included finalising business requirements, the operating model and necessary systems infrastructure to ensure the roll-out of Vitality to Humana clients from July this year.

As Humana members enrol in the programme, they receive the information they need to get started, improve their health and earn points to redeem for rewards. The roll-out of HumanaVitality has been highly successful with 480 000 members signed up by September 2011.

CASE STUDY

Healthcare and corporate wellness in the USA

In the USA, chronic diseases related to poor lifestyle choices contribute to 75% of the nation's medical costs account[1]. As elsewhere, healthcare costs in the USA are high, continue to rise and are unsustainable for both individuals and employers. Apart from direct healthcare costs, indirect costs relating to absenteeism and presenteeism also impact negatively on productivity. Over the years, many strategies were employed to target this problem, including managed care, government initiatives and disease management, but with limited success.

The focus has now shifted to preventive care with healthcare carriers revamping plans to help employers reduce costs and to give employees more preventive care. The government is looking for ways to cut wasteful spending and broaden wellness access. The Health Care Reform Act endorses the use of rewards, raising the cap for premium discounts for participation to 30% from 20%. Employees are being challenged to take more responsibility for their own health while wellness companies have evolved to a new level of sophistication and measurability. They also report heightened interest in demand for their services.

Employers are realising that good employee health is an investment in economic growth and are seeking holistic solutions that will give them a competitive edge. Improved corporate wellness can be an asset for companies. A healthy and productive workforce is a key strategic advantage to maintain operational expenses related to labour. The workplace also offers an important opportunity to shift health behaviour on a large scale. Wellness programmes in the workplace are therefore a driver of social change.

1 "Creating a next-generation health and wellness programme", White paper developed by The Vitality Group

Read more about HumanaVitality at www.humana.com.

CASE STUDY
The Vitality programme in the USA

Vitality aims to drive engagement and motivates participants to change behaviour that increases health risk. It does this through a rich incentive programme that offers employers the flexibility to design a programme according to their needs.

Incentive design, management and implementation are handled directly by The Vitality Group. Some examples of rewards options available include merchandise purchased using Vitality Bucks, hotel discounts, health club subsidies, lottery items, wellness rebates and health plan contribution adjustments.

Vitality provides the following key advantages:

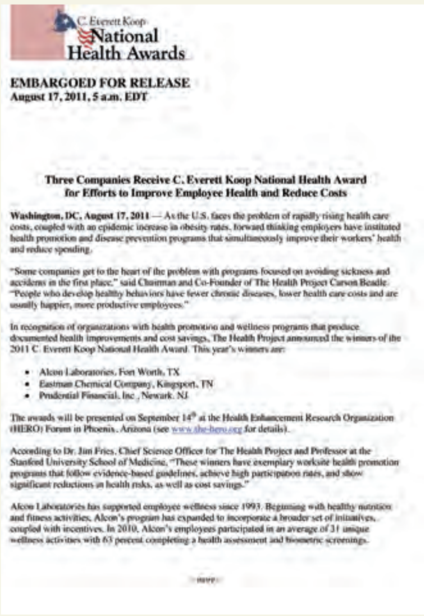
- Turnkey administration, robust tracking and reporting, and a full range of member tools including online portal, coaching and call centre
- Easy-to-access discounted biometric screenings provided at the appropriate frequencies with over 2 500 locations nationwide including over 40% discounts at Minute Clinic and Quest
- Ability to track activities using over 55 devices including iPhone, Polar heart rate monitors and Fitbug pedometers/accelerometers
- Broad fitness network with over 13 000 locations nationwide including Life Time Fitness, Curves and 24 Hour Fitness providing electronic connectivity, subsidy management and fitness assessments
- Workplace wellness promotions including onsite education, campaigns, Champ network setup and management, and webinars
- Incentive management and fulfilment with hundreds of thousands of mall items, a discounted hotel network, and lottery rewards designed around a pay-for-performance model that directly reduces healthcare costs

The below table shows employees' participation levels during 2011 in specific health activities offered through the Vitality programme:

Vitality activity	Participation (%)
Health Review Assessments	69.5
Gym visits	16.7
Verified workouts	22.2

A South African company has some bright ideas for promoting health

Oct 8th 2011 | from the print edition



C. Everett Koop National Health Awards

EMBARGOED FOR RELEASE
August 17, 2011, 5 a.m. EDT

Three Companies Receive C. Everett Koop National Health Award for Efforts to Improve Employee Health and Reduce Costs

THE SCIENCE OF HEALTH PROMOTION

Participation in Fitness-Related Activities of an Incentive-Based Health Promotion Program and Hospital Costs: A Retrospective Longitudinal Study

International recognition for Vitality and The Vitality Group

CASE STUDY

Research to prove positive health outcomes from Vitality

During the year we published a study to prove the effectiveness of robust wellness programmes and incentive structures in changing complex health behaviour such as unhealthy eating habits and lack of physical activity.

The study, published in the American Journal of Health Promotion, looked at more than 300 000 adult members of the Discovery Health Medical Scheme in South Africa, of which 192 467 members were registered with the Vitality wellness programme and 111 587 were not on the programme. Researchers assessed engagement with fitness activities over a three-year period and medical claims data over the fourth and fifth year. Vitality members were encouraged to take part in fitness activities which were measured based on the frequency of electronically documented gym visits and other verified activities.

The aim was to establish the role of wellness programmes in encouraging positive behaviour change and lower healthcare costs through incentive structures. The research measured the relation between participation in specific health activities and hospital claims for members on the Discovery Health Medical Scheme in South Africa.

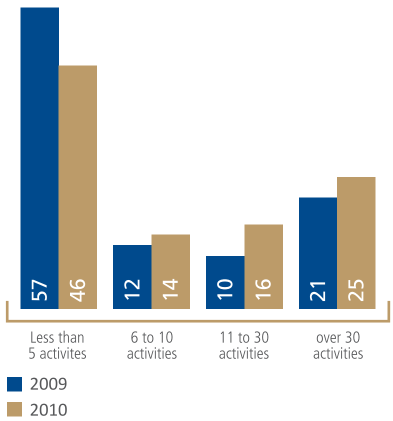
We found that:

- The percentage of Vitality members using the gym one or more times a week increased by almost 23%
- Over time the percentage of members who joined the gym but were "inactive" decreased by 8%, and there was an increase in the percentage of members classified as "medium and high engaged" in fitness-related activities
- Members who consistently maintained or increased engagement with fitness-related activities had the best outcomes related to hospital admissions and costs. Hospital costs were 6% lower for those members who were initially inactive and who became active; and 16% lower for those members who were active throughout the study, compared to those members who remained inactive
- Increased frequency of gym visits was associated with a lower probability of hospital admissions. The study found that two additional gym visits per week reduced the probability of hospital admissions by 13%

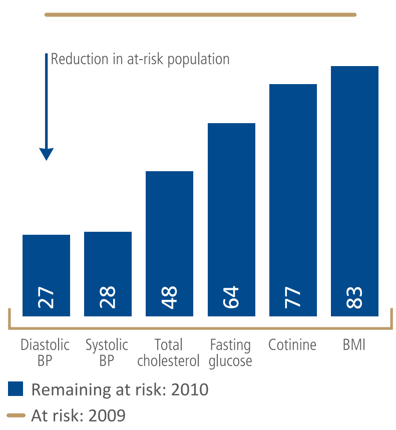
CASE STUDY

Alcon Laboratories, a corporate client of The Vitality Group, received a C. Everett Koop National Health Award for their commitment to improving the health of their workforce. Alcon is a global leader in eye care and became the second largest division of the Novartis Group during 2011 following a merger between Alcon and Novartis. Before the merger, Alcon had 7 500 associates in the USA. The Vitality programme was made available to all employees and spouses who were covered under Alcon's medical plans. During 2010, Alcon's employees took part in an average 31 unique wellness activities with 63% completing a health assessment and biometric screening through Vitality. Alcon's commitment to wellness has led to reductions in health risks and healthcare expenditure and a positive return on investment for its highly engaged employees.

Activity distribution year-on-year: number of wellness activities
(%)



Transition of high-risk members (2009 to 2010, verified data)
(%)



Our performance highlights for 2011

Ping An Health serves **1 500** group clients and administers **300 000** lives

Service infrastructure enhancements have been introduced

We expanded our branch network with an additional four branches, bringing the total number of branches to seven

"In December 2009, we announced our intention to buy a 20% share in Ping An Health Insurance Co. of China, a wholly-owned subsidiary of the Ping An Insurance Group. The Ping An Group is the second largest insurer in China, and the third-largest globally. The group already has an established presence in the Chinese health insurance market through its insurance businesses and Ping An Health."

Established in 2005, Ping An Health currently provides health insurance, accident insurance and related services. The business has recorded significant growth over the last three years with sales increasing more than 400% over that period.

The partnership between Ping An Health and Discovery aims to leverage the intellectual property and healthcare management expertise of Discovery Health with the brand credibility, infrastructure and distribution excellence of the Ping An Group. Our vision for Ping An Health is to be the premier specialist health insurer in the Chinese market by offering innovative and client-centric solutions.

Our key focus areas during 2011

During the past year, Ping An Health focused on developing the operational and product structures that will position the company strongly for future growth. We focused on the following three key strategies:

Product development and technical marketing support

Ping An Health has developed its products through an iterative process to best understand the needs of the Chinese consumer. Building on this existing knowledge and infrastructure, we made considerable progress to develop and tailor the Vitality framework to ensure its relevance in the Chinese market. In addition to this, we have implemented a technical marketing approach to the current marketing of Ping An Health's products, thereby supporting financial advisers with technical marketing tools and material.

Building our distribution footprint

We have expanded our branch network with an additional four branches opening, bringing the total number of branches to seven.

Exporting Discovery's intellectual property and risk management expertise to Ping An Health

During the year we have injected systems, risk management, administration and clinical tools and processes into the Ping An Health business. These projects include new business, claims processing, knowledge management, claims coding, billing and Vitality systems. Service infrastructure enhancements include a new 24/7 bilingual call centre, electronic tools such as 'Find-a-doctor' and on-site hospital representatives. The injection of these systems and processes helps us manage risk more efficiently as well as offer clients better quality service through an improved service infrastructure. It also enables us to gather accurate and up-to-date health, clinical and claims data – an important asset in the Chinese health insurance market. Developed in South Africa by Discovery Health, these unique risk management initiatives are now being applied successfully in the Chinese healthcare market.

CASE STUDY

The Chinese health insurance market presents a unique opportunity for growth and scale

The Chinese healthcare system is experiencing rapid growth and change. While a large proportion of the population is covered by a social health insurance (SHI) system, the strict coverage caps and co-payments mean inadequate cover for consumers. There is also inadequate access to top-tier hospitals and healthcare facilities. Patients generally have to pay between 50% and 60% from their own pocket. Often, consumers find it difficult to access high-end care.

This inadequate cover, coupled with increasing consumer awareness about the need for preventive healthcare, has created demand for private medical insurance. The growing disposable income among the 25 to 40 million middle-class households means many consumers can afford top-up cover. There is also increasing demand for cover for private healthcare facilities, diagnostics and branded drugs that fall outside the limited SHI schedule of benefits.

The Chinese Government recognises the limitations of the SHI, and through their reform process, is encouraging private healthcare insurers to play an active role in developing a "multi-level health insurance system". While the private health insurance market is still emerging, there is strong growth potential. The Chinese Insurance Regulatory Commission estimates that the Chinese personal accident and health insurance industry generated RMB64.2 billion in 2010.*

** The Chinese Insurance Market, Asia-Pacific, July to September, 2010, Towers Watson*

Our priorities for 2012

Although still early in the joint venture, Ping An Health has shown rapid growth in premium income and new business for the first six months of 2011. The company now serves 1 500 group clients and administers 300 000 lives. For 2012, our priorities include:

- Further development of the operational, service and risk management infrastructure in China
- Leveraging the distribution scale and networks of Ping An Annuity, Ping An Property and Casualty and Ping An Life to distribute Ping An Health products
- Replicating the Vitality model in the Chinese market
- Introducing innovative products to the Chinese market.


COR

2011

This section provides information on how we manage our business in a responsible, ethical and transparent manner.

PORATE Governance

Executive

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

Non-executive

Dr BA Brink±
P Cooper
J Durand**±
SB Epstein (USA)
MI Hilkowitz (Chairperson)±
Dr TV Maphai±
V Mufamadi±
AL Owen (UK)±
SE Sebotsa±
T Slabbert
SV Zilwa±

** Appointed on 1 July 2011*

*** Appointed on 25 August 2011*

± Independent

Dr Brian Brink (59)

BSc (Med), MBBCh, DA (SA)

Non-executive Director

Brian is a respected thought-leader in the health arena, with a particular interest in HIV/AIDS issues. He is Chief Medical Officer at Anglo American, where he has been employed for nearly 30 years, and is responsible for setting workplace and community health standards. Brian has a special interest in the funding, delivery and management of healthcare services and strives to enhance the role of the private sector in broadening access to sustainable, quality healthcare – particularly in developing countries. Brian currently leads the private sector delegation on the Board of the Global Fund to fight AIDS, TB and malaria. He also sits on the boards of various NGOs involved in health and human rights including Section 27 (incorporating the AIDS Law project) and Right to Care in South Africa. He is the Chairperson of the International Women's Health Coalition based in New York.

Peter Cooper (55)

BCom (Hons), HDip Tax, CA(SA)

Non-executive Director

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

Jan Durand (43)

BAcc (Hons), MPhil, CA(SA)

Non-executive Director

Jan is a qualified chartered accountant and Rhodes Scholar, with a BAcc (Hons) from the University of Stellenbosch and an MPhil in management studies from Oxford University. He is the Chief Investment Officer of Remgro Ltd, and before its delisting was the Financial Director and Chief Executive Officer of Venfin Ltd. Jan is a Director of Rainbow Chicken Ltd, Capevin Investments Ltd, SAIL Group Ltd, Capevin Holdings Ltd, RMB Holdings Ltd, RMI Holdings Ltd, Saracens Ltd, Tracker Investments Holdings (Pty) Ltd, InVenFin (Pty) Ltd, Intervid Ltd, Intervid International AG, CommsCo Holdings (Pty) Ltd and CommsCo (Pty) Ltd. He has been a Director of Remgro Ltd since November 2009, and served as a Non-executive Director of Alexander Forbes Ltd from October 2004 to July 2007. Jan brings extensive expertise and complementary capabilities to the Discovery Board.

Steven Epstein (68)

JD (Columbia University Law School)
BA (Tufts University)

Non-executive Director

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

Richard Farber (40)

BCom (Hons), CA(SA), FCMA

Executive Director

Richard was a partner at Fisher Hoffman Sithole (PKF) from 1998 until 2001 before joining Investec Bank, where he was the group accountant from 2002 to 2003. He joined Discovery as the Chief Financial Officer in 2003 and was appointed as the Financial Director on 1 July 2009. Richard is also a member of the Generally Accepted Accounting Practice (GAAP) Monitoring Panel of the Johannesburg Stock Exchange and a fellow of the Chartered Institute of Management Accountants.

Adrian Gore (47)

BSc (Hons), FFA, ASA, MAAA, FASSA

Group Chief Executive Officer

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

Monty Hilkowitz (71)

FIA

Non-executive Chairperson

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

Hylton Kallner (36)

BEconSc, FFA, FASSA

Executive Director

Hylton graduated from the University of the Witwatersrand with a BEconSC in Actuarial Science. In 2000, he was admitted as a Fellow of the Faculty of Actuaries and a Fellow of the Actuarial Society of South Africa. In 1996 Hylton started his career at Liberty Life in the actuarial division. In October 1996, he joined Discovery Health where he has held various positions in marketing, actuarial and strategic projects. He is currently the Chief Marketing Officer for the Discovery Group and plays a key role in the executive committees of Discovery Holdings, Discovery Health, Discovery Life, Discovery Invest and Discovery Vitality. Hylton was also appointed to the boards of Discovery Health and Discovery Life in April 2010.

Neville Koopowitz (47)

BCom, CFP

Executive Director

Neville joined Discovery as Marketing Director in 1996 and has played a key role in defining and building the Discovery identity. A particular area of focus of his has been the development of Vitality and DiscoveryCard. He also played an important role in the development of Discovery's sales and distribution environments. He is currently the Chief Executive Officer of PruHealth. He serves on the board of the Sports Science Institute of South Africa and the Board of Trustees of the Laureus Sport for Good Foundation's South African chapter.

Dr Vincent Maphai (59)

BA, BA (Hons), M Phil, D Phil, Advanced Management Program (Harvard)

Non-executive Director

Vincent is the Director of Corporate Affairs and Transformation at the SAB. Previously he was the Southern African Chairperson of BHP Billiton. In an academic career spanning two decades, he taught at various universities both locally and abroad and consulted with several blue-chip companies on a range of transformation and human resource issues. He was also a Research Executive Director of Social Dynamics at the HSRC for three years. He has served on the boards of various companies as Non-executive Chairperson, and he has chaired the SABC, the Presidential Review Commission into the restructuring of the public sector, and the South African Responsible Gambling Trust. Vincent is also the Chairperson of the Discovery Foundation.

Herschel Mayers (51)

BSc (Hons), FIA, FASSA

Executive Director

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

Vhonani Mufamadi (42)

BA (Law), LLB

Non-executive Director

Vhonani obtained a BA Law and LLB degree from the University of Witwatersrand in 1992. He started his career as a consultant where his responsibilities included consulting to companies and organisations on their human resources and management needs. In this capacity, his clients included Anglo American Corporation, Goldfields Limited, Sasol Limited and the South African Sugar Association. From 1994 to 1997, he practiced law at Edward Nathan & Friedland Co. He is the founder member and Chairperson of Muvoni Investment Holdings and has also been the Chief Executive Officer since 2001. Muvoni Investment Holdings has over the years invested in various sectors including engineering (electrical and telecommunications), information technology and biometrics. Today, the company's sole asset is Ideco Group Limited – a biometrics business founded by Muvoni Investment Holdings and listed on the AltX board of the Johannesburg Securities Exchange. Vhonani is also a Director of the Rhodes Scholarship Trust in Gauteng, the Tiso Group, Early Childhood Development Projects and Businessmap Advisory Services.

Dr Ayanda Ntsaluba (51)

MBChB, MSc (Lond), FCOG (SA)

Executive Director

Before joining Discovery in July 2011, Ayanda served as Director General of the Department of International Relations and Co-operation. Before this, he was Director General of the Department of Health. A qualified obstetrician and gynaecologist, Ayanda completed further tertiary education in the fields of health policy planning, international relations and business at eminent universities including Harvard, the University of London and the Moscow Institute of Social Science. He has served on a number of statutory bodies including the Medical Research Council (SA) and the Health Professions Council of SA. Ayanda is playing an instrumental role in Discovery's overall strategic planning, particularly within the healthcare system, and in Discovery's international expansion strategy.

Les Owen (62)

BSc (Hons), FIA, FPMI

Non-executive Director

Les is based in the UK and is an actuary with over 35 years' experience in the UK and Asia Pacific insurance markets. He was the Group CEO of AXA Asia Pacific Holdings and a member of the AXA Global Executive Committee from 2000 to 2006, and CEO of AXA SunLife in the UK from 1995 to 1999. Les brings to the Board extensive experience and expertise in international insurance markets. He is the Non-executive Chairperson of Jelf plc and Non-executive Director of ComputerShare Limited, Royal Mail Group, Just Retirement and CPP. He is also the Chairperson of the Discovery Holdings Audit and Risk Committee.

Alan Pollard (42)
BSc (Hons), FIA, FSSA

Executive Director

Alan joined Discovery Health in 1994 and headed up Research and Development where he was responsible for the design and development of the Discovery Health products. A qualified actuary, he is currently the Chief Executive Officer of Discovery Vitality and is a member of the Executive Committee and Actuarial Committee of the Discovery Group.

John Robertson (63)
BCom, CTA, CA(SA), HDipTax

Executive Director

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

Sonja Sebotsa (39)
LLB (Hons), MA

Non-executive Director

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

Tania Slabbert (44)
BA, MBA

Non-executive Director

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

Barry Swartzberg (46)
BSc, FFA, ASA, FASSA, CFP

Executive Director

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

Sindi Zilwa (44)
BCompt (Hons), CTA, CA(SA),
Advanced Taxation Certificate,
Advanced Diploma in Financial Planning,
Advanced Diploma in Banking

Non-executive Director

Sindi is the Chief Executive Officer of Nkonki, a chartered accountancy firm. She was the second black woman to qualify as a chartered accountant in 1990. In 1998, she was awarded the Business Women of the Year title by the Executive Women's Club, and she was awarded the Woman of Substance Award for 2008 by the African Women Chartered Accountants Forum. She is a member of SAICA's Education Committee, and serves on the boards of Woolworths, Aspen, Ethos Private Equity, Strate Limited and is the Chairperson of Airports.

Actuarial Committee

AB Rayner (Chairperson)
R Farber
RE Lee
HP Mayers
S Matisonn
L Owen
A Pollard
B Swartzberg
RD Williams (Statutory actuary)

Audit and Risk Committee

AL Owen (Chairperson)
SE Sebotsa
SV Zilwa

Remuneration Committee

MI Hilkowitz (Chairperson)
M Olivier (Independent HR expert)
P Cooper
T Slabbert

Company Secretary

MJ Botha
BCompt

Transformation and Sustainable Development Committee

SV Zilwa (Chairperson)
Dr BA Brink
R Farber
A Gore
HP Mayers
A Pollard
Dr A Ntsaluba
JM Robertson
T Slabbert
B Swartzberg
Dr P Tlhabi

Executive Committee

A Gore (Chairperson)
Dr J Broomberg
R Farber
P Harvey
L Izikowitz
HD Kallner
NS Koopowitz
S Matisonn
HP Mayers
K Mayet
Dr R Noach
Dr A Ntsaluba
A Ossip
A Pollard
K Rabson
JM Robertson
E Stipp
B Swartzberg
P Thompson
Dr P Tlhabi
R van Reenen

"Good corporate governance is important for Discovery as it ensures we manage the business in a responsible, ethical and transparent manner, and that we are accountable to our stakeholders. We are responsible for ensuring the business is sustainable in terms of our economic, financial, environmental and social performance. Good corporate governance principles and practice supports this objective through proper management and control of the company. We are committed to a transparent governance process that ensures we manage the business ethically, using cautious risk models and in accordance with local and international best practice. Discovery's Board of Directors is responsible for ensuring good corporate governance."

Read more about Discovery's Board of Directors on page 98.

How we address the recommendations of the King Code on Governance Principles (King III) for Discovery

King III was introduced during March 2010 and during the past year, we analysed the implications for Discovery in order to understand where we can improve our governance practices. The analysis was done under the guidance of Discovery's Financial Director, and involved our Group Compliance Division. Discovery's Audit and Risk Committee has final oversight of the analysis and work plan to address any gaps. This is monitored on an ongoing basis by Discovery's Group Compliance Division. The analysis identified areas for improvement as well as specific areas where processes should be changed to meet the recommendations of King III.

During the year we focused on the following areas:

- We completed internal stakeholder engagement around sustainability issues for Discovery, and started a change management and communication programme on Discovery's sustainability strategy. Read more about Discovery and sustainability on page 34
- We have established a framework for the implementation of a Combined Assurance Model. This framework was approved by the Audit and Risk Committee during 2011
- The Board of Directors agreed that the Group Internal Audit Division would provide assurance for the 2011 Integrated Annual Report and that no external assurance would be obtained for this report.

The Board of Directors and its committees

Discovery has a Board with clear divisions of responsibilities between the Board and the Executive Management. During the year, we appointed one Executive Director and one Non-executive Director to the Board to meet the strategic objectives of the business.

The boards of Discovery Holdings Ltd, Discovery Life Ltd, Discovery Health (Pty) Ltd and Vitality HealthStyle (Pty) Ltd are held in one combined meeting, where possible. Mr MI Hilkowitz is the Chairperson of the Group and is non-executive and independent according to King III. The Chairperson has been a Director of Discovery for nine years. In terms of King III the Board of Directors is required to consider the independence of the Chairperson in these circumstances. This was discussed and the Board unanimously agreed that the Chairperson remains independent. The roles of the Chairperson and the Chief Executive Officer are separate, each with an own set of duties.

At the time of publishing the Integrated Annual Report, the Board of Discovery Holdings consisted of 20 members: nine are Executive and the other 11 are Non-executive Directors. Of the Non-executive Directors, eight are independent (as defined according to King III and the JSE). The members of the Board bring a mix of skills, experience and technical expertise to the Board.

The role of the Board of Directors is to:

1. Appoint the Chief Executive Officer
2. Be the guardian of the values and ethics of Discovery
3. Approve the strategic direction of the Group and the budgets necessary for the implementation thereof
4. Monitor the executive management in the implementation of the corporate vision and strategy
5. Ensure there is compliance with the letter and spirit of the law
6. Communicate with shareholders openly and timeously throughout the year.

Duties of the Directors

The Directors exercise their fiduciary duty with due diligence and act in the best interests of the company. The Chief Executive Officer presents a report at each Board meeting. The Board also receives reports from the Audit and Risk, Actuarial, Transformation and Sustainable Development, and Remuneration committees.

Board performance assessment

A collective board-effectiveness evaluation is done annually (with the help of external advisers if required). The Chairperson meets with individual Directors on a one-to-one basis throughout the year to discuss matters relevant to their directorship.

Appointment of Directors

When necessary, the Board identifies suitable new Directors. The Board has agreed that the appointment of new Directors remains the responsibility of the Board as a whole and appointments will be discussed and approved at Board meetings. Non-executive Directors are appointed for three years and reappointments are not automatic. All Executive Directors have contracts that may be terminated within one to three months' notice. Directors must operate in accordance with the Discovery Code of Conduct.

The Company Secretary arranges induction and orientation and continuing education programmes for new Directors. This includes an explanation of their fiduciary duties and responsibilities. They also go on visits to different parts of the businesses for discussions with management on industry-specific issues.

Board proceedings

The Board meets six times a year, with additional meetings as necessary. A separate strategy day is arranged each year where executive management is invited to present and discuss strategy matters with the Board. Directors have full and unrestricted access to relevant information. They can get independent professional advice at Discovery's expense to help them in their duties.

Attendance at Board meetings, over the last financial year, was as follows:

	Aug 2010	Oct 2010	Dec 2010	Feb 2011	Apr 2011	June 2011
MI Hilkowitz (Chairperson)	✓	✓	✓	✓	✓	✓
P Cooper	✓	✓	✓	✓	✓	✓
A Gore (Chief Executive Officer)	✓	✓	✓	✓	✓	✓
BA Brink	✓	✓	✓	✓	✓	x
SB Epstein	✓	✓	✓	✓	✓	✓
HD Kallner	✓	✓	✓	✓	✓	✓
R Farber	✓	✓	✓	✓	✓	✓
NS Koopowitz	✓	✓	✓	✓	✓	✓
TV Maphai	x	✓	x	✓	x	✓
HP Mayers	✓	✓	✓	✓	✓	✓
V Mufamadi	✓	x	✓	✓	x	✓
AL Owen	✓	✓	✓	✓	✓	✓
A Pollard	✓	✓	✓	✓	x	✓
JM Robertson	✓	✓	✓	✓	✓	✓
SE Sebotsa	✓	x	✓	✓	x	✓
T Slabbert	✓	✓	✓	✓	✓	x
B Swartzberg	✓	✓	✓	✓	✓	✓
SV Zilwa	x	✓	✓	✓	✓	✓
J Broomberg	✓	✓	✓	✓	✓	✓
KS Rabson	✓	✓	✓	✓	✓	✓
P Tlhabi	✓	✓	✓	✓	✓	✓

Dr J Broomberg and Dr P Tlhabi are Directors of Discovery Health (Pty) Ltd only

Mr KS Rabson is a Director of Discovery Life Ltd only

Board committees

To help the Board with its responsibilities, specific committees have been set up with their own responsibilities. The overall responsibility, however, remains with the Board.

Performance of these committees is considered by the Board on an annual basis.

The current Board committees are:

Discovery Holdings Executive Committee

The Holdings Executive Committee is empowered and responsible for implementing the strategies approved by the Discovery Board and for managing the affairs of Discovery. The Holdings Executive Committee is chaired by the Chief Executive Officer and meets weekly.

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

Audit and Risk Committee

The Board of Discovery oversees business performance and risk management activities. It is supported by the Audit and Risk Committee.

The responsibilities of the Audit and Risk Committee are:

- To examine and review the company's interim and financial statements prior to submission to and approval by the Board
- To receive and deal appropriately with any complaints relating either to the accounting practices or internal audit of the group or the content or auditing of its financial statements
- To review the effectiveness of internal controls
- To nominate, with the approval of the Board, to the Annual General Meeting the appointment of the External Auditor, after considering the independence of the proposed auditor
- To approve the External Auditor's terms of engagement, the audit plan and audit fees
- To approve the provision of any non-audit services by the External Auditor to the company
- To review the adequacy and effectiveness of the system for monitoring compliance with laws and regulations
- To review the performance of the company's internal audit function
- To provide independent and objective oversight of the financial, operational and strategic risks.

With effect from 1 January 2011, the Audit and Risk Committee increased the number of its meetings from four times to six times a year. The executive management team and representatives of the external audit and internal audit teams attend these meetings by invitation.

The Board recognises the need for members of the Actuarial Committee to attend the Audit and Risk Committee meetings and vice versa. Mr AB Rayner, the independent Chairperson of the Actuarial Committee, attends the Audit and Risk Committee meetings by invitation.

The members of the Audit and Risk Committee are Mr AL Owen (Chairperson), Ms SE Sebotsa and Ms SV Zilwa. The Chairperson of the Audit and Risk Committee is also present at the Annual General Meeting.

Attendance at Audit and Risk Committee meetings, over the past financial year, was as follows:

	Aug 2010	Nov 2010	Feb 2011	Apr 2011	June 2011
L Owen	✓	✓	✓	✓	✓
SE Sebotsa	✓	x	✓	x	✓
SV Zilwa	x	✓	x	✓	✓

Individual risk committees for each business unit have been set up as part of the executive functions. Each risk committee meets monthly and the CEOs of the business units, members of their executive committees and key risk management stakeholders from compliance and internal audit attend these meetings. Their aim is to develop, implement and monitor processes for key financial and non-financial risks using the enterprise-wide risk management framework.

The divisional risk committees are responsible for:

- Receiving and evaluating reports on the risk profile for the business according to severity and likelihood
- Reviewing the current effectiveness of control measures of the major risks
- Developing any plans to address any risks where more control improvements are necessary
- Implementing the risk management strategies
- Implementing risk control action plans
- Assessing the results of internal and external audit assessments and implementing recommendations.

The Audit and Risk Committee conducted an effectiveness evaluation during the year and at the same time used the opportunity to review and change its charter to comply with King III and best practice.

Actuarial Committee

The responsibilities of the Actuarial Committee are:

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

The Actuarial Committee met six times during the year. Two extra, informal meetings took place to discuss specific matters. During the year separate actuarial committees were formed for the PruHealth Group in the UK and Discovery Insure. These committees are responsible for the specific issues relating to pricing and underwriting these companies' products.

The External Auditors, and the external and the internal actuaries for Discovery Health, Discovery Life and PruHealth attend by invitation.

Attendance of Actuarial Committee meetings, over the past financial year, was as follows:

	04 Aug 2010	24 Aug 2010	Oct 2010	2 Feb 2011	14 Feb 2011	June 2011
AB Rayner (Chairperson)	✓	✓	✓	✓	✓	✓
R Farber	✓	✓	✓	✓	✓	✓
AL Owen	✓	✓	✓	✓	✓	✓
S Matisonn	x	✓	✓	x	✓	✓
HP Mayers	x	✓	✓	x	✓	✓
A Pollard	x	✓	✓	✓	✓	✓
B Swartzberg	✓	x	✓	x	✓	✓
RW Williams	✓	✓	✓	✓	✓	✓
R Lee	✓	✓	✓	✓	✓	✓

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

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

Mr R Lee is a qualified actuary, living in the UK, and is not a member of the Board. Mr Lee was invited to join the Actuarial Committee because of his expert knowledge of actuarial affairs in the UK where PruHealth operates.

Remuneration Committee

The main objective of the Remuneration Committee is to recommend to the Board the remuneration principles and strategies. It is responsible for:

- Approving remuneration packages for Executive Directors
- Approving policy relating to bonus and share incentive schemes
- Recommending the basis for Non-executive Directors' fees
- Reviewing the annual salary increase process and the increases of all senior executives; and ensuring alignment of remuneration practices with Discovery's overall remuneration philosophy.

The Remuneration Committee met twice during the last financial year and attendance was as follows:

	Aug 2010	June 2011
MI Hilkowitz	✓	✓
T Slabbert	x	✓
M Olivier	✓	✓
P Cooper	✓	✓

Mr Hilkowitz is both the Chairperson of the Board and Chairperson of the Remuneration Committee. The Board understands that King III recommends that the Board Chairperson should not also be Chairperson of the Remuneration Committee. The Board is of the opinion that Mr Hilkowitz is well experienced to chair the Remuneration Committee to the best interest of the company.

Mr M Olivier is an independent remuneration expert. The Board appointed him to the Remuneration Committee to bring the required expertise to the meetings. Mr Olivier is not a Board member.

The CEO, Financial Director, the Head of HR and the Chairperson of the Internal Remuneration Committee attend the meetings by invitation. Executive Directors are not involved in setting their own remuneration.

Details of the respective Directors' remuneration for the year under review can be found on page 245.

Transformation and Sustainable Development Committee

The main objectives of the Transformation and Sustainable Development Committee are to develop, implement and monitor processes to meet transformation and sustainability objectives for Discovery. Compliance is measured through an agreed scorecard and any other measures that apply to the charters and the Department of Trade and Industry's Codes of Good Practice.

The Committee met four times during the year. The CEO and the CEOs of the business units, the Head of HR and the CFO form part of the Committee. Attendance was as follows:

	Jul 2010	Oct 2010	Feb 2011	Apr 2011
SV Zilwa	✓	✓	✓	✓
B Brink	x	✓	✓	✓
T Slabbert	✓	✓	✓	✓
A Gore	x	x	✓	✓
J Broomberg	x	✓	✓	✓
J Robertson	x	✓	x	✓
H Kallner	x	✓	x	x
HP Mayers	x	✓	x	✓
NS Koopowitz	✓	N/A	N/A	N/A
B Swartzberg	✓	✓	✓	x
A Pollard	✓	✓	✓	x
R Farber	✓	✓	x	✓
P Tlhabi	✓	✓	✓	✓

Mr NS Koopowitz relocated to the UK during the year

Company Secretary

MJ Botha is the Company Secretary. He is suitably qualified and has access to the Discovery secretarial resources.

The Company Secretary gives support and guidance to the Board on governance and ethical practices across Discovery. The Directors all have unlimited access to the advice and services of the Company Secretary. The Company Secretary makes sure all members adhere to the administration protocols of Board and sub-committee proceedings.

The Company Secretary also guides Directors on their responsibilities in the statutory environment and the restrictions on dealing in company shares during restricted periods according to JSE Limited requirements. A written notice is given to all Discovery Directors and employees advising them they may not deal in shares during a restricted period. A strict pre-approval policy and process is in place for all Discovery Directors. All share transactions in Discovery shares by Directors and the Company Secretary are communicated to the JSE Limited through the Stock Exchange News Service (SENS).

Code of Conduct

Discovery's aim is to maintain high standards of business ethics, morals, honesty and integrity among all employees in the business operations of the Group. A Code of Conduct has been published which all Directors and employees of the Group must follow. All employees sign a declaration agreeing to follow the Discovery Code of Conduct. The Code of Conduct explains Discovery's approach to conducting business ethically with full compliance and in the best interests of all stakeholders.

Discovery's Code of Conduct explains how the code applies and the general duties of Directors and employees. It also gives the rules that guide the code and how Directors and employees should follow the code in the following areas:

- Personal behaviour
- Disclosing information
- Media relations
- Conflict of interest
- Gifts
- Commission
- Plagiarism and company assets
- Proprietary interest
- Network, internet and email
- Gambling
- Dress code
- Alcohol and drugs
- Compliance with governing laws and rules

The Code of Conduct appears on the Company's intranet site.

Compliance

Discovery also has a team that manages the compliance of the Group's business operations. This division continuously works with all regulatory bodies to make sure Discovery does business in compliance with all relevant laws.

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

Communication with stakeholders

The Directors support the release of accurate information to Discovery stakeholders. Discovery uses reports and announcements to all audiences and meetings with investments analysts and journalists. The website is also regularly updated. Stakeholders are encouraged to share their views with Discovery. Transparency and disclosure is always the end goal in communication. Shareholders are invited to attend the Annual General Meeting of the company.

"Risk management is a key function in improving business performance, and supporting the continued and sustainable growth of the Discovery Group."

Risk Management Policy

The Discovery Group uses a common and integrated approach to risk management. In this way knowledge and experience is shared and a culture of risk awareness is fostered within the Group.

Effective risk management sees reduced uncertainty and threats; and the costs and implications associated with them. At Discovery, an effective risk management function allows us to be more decisive in pursuing our corporate strategy, within the bounds of the risk appetite of the organisation.

The Risk Management Policy maintains a balance between risk and reward while taking stakeholders, resource constraints and sustainable development into consideration. The Board is accountable for the policy. The Chief Executive Officers and Executive Management teams are responsible for the management of strategic, operational, financial, insurance and environmental risks; and implementing the Risk Management Policy through a common and integrated Enterprise Risk Management Framework.

The Enterprise Risk Management Framework aims to:

- Act as a guideline to limit exposure to adverse outcomes by ensuring that the assumptions of risk take place within appropriate boundaries; as well as avoiding those risks for which the Group has little or no appetite; or where the expected return is inadequate
- Ensure that risks that could significantly impact the ability of the Group to meet its objectives are identified, measured, monitored, managed and reported
- Define the governance structure, policies and processes for managing risk and providing assurance to the Board and external stakeholders
- Foster a culture of risk-based decision-making, enabling all members of staff to take more effective business decisions
- Protect the interests of key stakeholders as well as maximise shareholder value by establishing an appropriate risk monitoring and control environment
- Improve our ability to deliver high-quality products and services; and our ability to compete locally and globally
- Outline the purpose and characteristics of key risk management processes
- Support the business growth strategy and continuously monitor and effectively manage the risks inherent in new investments and business

The Discovery Enterprise Risk Management Framework is applicable to all companies, joint ventures and operating units within the Discovery Group.

Management for Discovery is achieved by the understanding and implementation of the Enterprise Risk Management Framework, which is reviewed continuously. We have aligned our Enterprise Risk Management Framework with best risk management practice.

The Risk Management Policy applies to the entire Discovery Holdings Group, including subsidiary companies and investments where Discovery assumes management responsibility. The Board reviews this policy annually.

Governance structures

The responsibility for the second and third line deployment of Discovery's Enterprise Risk Management Framework has been delegated to three central functions:

- Group Risk Management
- Group Compliance
- Group Internal Audit

These three central functions collectively establish the infrastructure, and facilitate the process, of risk management within Discovery.

It is the responsibility of the Board and Executive and Senior Management to assess business risks, develop risk management strategies, design and implement controls, and monitor performance of controls. Group Internal Audit independently assesses this process of risk management to measure its success. In this way risk management is improved based on management knowledge, past experience and proposals from Group Internal Audit.

Two key components of the risk management process are risk identification and risk assessment. Risk identification and risk assessment take place through facilitated workshops that include Executive and Senior Management. These workshops allow business to list their key risks and rate the risks according to their impact on day-to-day operations of the business, as well as the likelihood of the risk manifesting given the existing controls.

Discovery governance structure

Discovery Board

Discovery Group Audit and Risk Committee

- Ensures integrity, reliability and accuracy of accounting and financial reporting systems
- Ensures appropriate systems are in place for monitoring risk control and compliance with the law and codes of conduct
- Evaluates the adequacy and effectiveness of the risk management, internal audit and compliance processes
- Reviews the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors
- Considers the annual financial statements for approval by the Board of Directors

Discovery Group Actuarial Committee

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

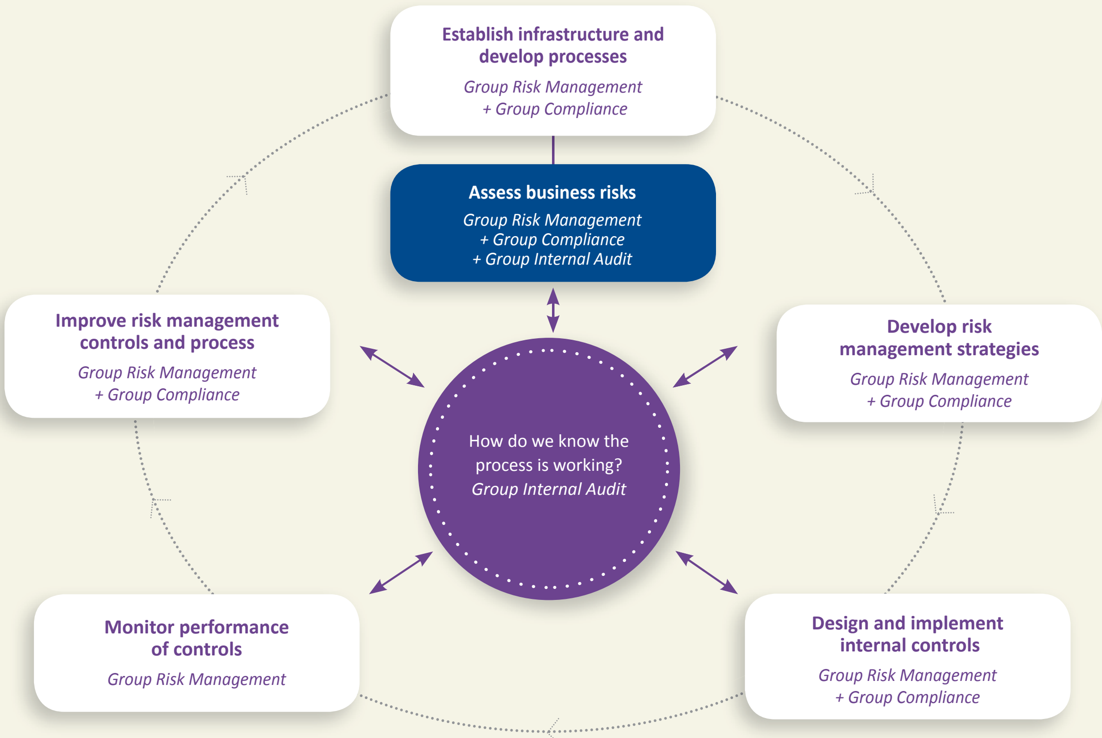
Divisional risk committees

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

Shareholders' Assets Investments Committee

Determines investment philosophy and strategy for the investment of shareholders' assets in support of Group operations.

Risk management methodology



Risk governance structures, roles and responsibilities

Discovery Board of Directors

The Board is ultimately accountable for the risk management process and the effectiveness of the process. Management is accountable to the Board for designing, implementing, monitoring, and integrating the risk management into the company's daily business.

The Board, together with the Executive Directors and Senior Management, decides on the risk strategy and policies.

The Board establishes Discovery's appetite and tolerance for risk; which risks it will take and which it won't to improve shareholder value. It must also ensure Discovery has an effective process to identify risk, measure its impact and have measures to manage these risks.

The Board must ensure it has a systematic, documented assessment of the processes and outcomes surrounding key risks. This should take place at least once a year, so it can make a public statement on risk management. The Board should receive and review reports on the risk management process in Discovery regularly.

The Board uses recognised risk management and internal control models and frameworks to make sure Discovery reaches its objectives in:

- Efficiency and effectiveness of operations
- Safeguarding of the company's assets (including information)
- Compliance with applicable laws, regulations and supervisory requirements
- Supporting business sustainability under normal as well as difficult operating conditions
- Reliability of reporting
- Behaving responsibly towards all stakeholders

The Audit and Risk Committee

The Discovery Holdings Audit and Risk Committee is a sub-committee of the Board of Discovery Holdings.

Its objectives are to:

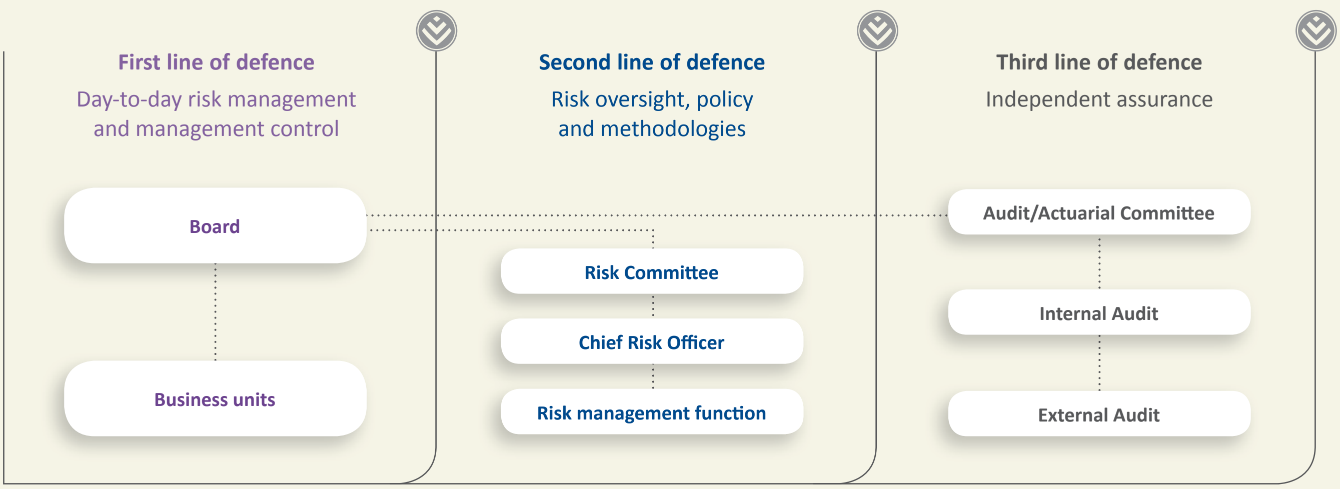
- Provide advice on risk strategy, including the oversight of current risk exposures, including prudential risks
- Review the development of proposals in respect of overall risk appetite and tolerance, and metrics to be used to monitor risk management performance
- Provide oversight and challenge of the design and execution of stress and scenario testing
- Provide oversight and challenge of the day-to-day risk management and oversight arrangements of the Executive Committee
- Provide oversight and challenge of due diligence on risk issues relating to material transactions and strategic proposals
- Provide advice, oversight and challenge necessary to embed and maintain a culture supportive of risk management at all levels
- Review the effectiveness of systems of monitoring compliance with regulation and laws
- Be satisfied that all regulatory compliance matters have been subject to adequate monitoring and control; and review the Group Compliance Monitoring Plan
- Review the effectiveness of the Company's regulatory and compliance policies and procedures for the identification, assessment and reporting of regulatory risks

The "Three Lines of Defence" model

The Discovery Group uses a "Three Lines of Defence" governance model, as illustrated and explained below:

- Line management within the business forms the primary "first line" responsibility for managing, monitoring and assessing risk
- The second line of defence is provided by the risk function and those specialist functions that undertake policy-setting and monitoring roles. Note that many specialist functions (e.g. people, TI) have both operational and policy-setting roles, and so have a "dual role" in both first and second lines of defence
- The third line of defence is provided by Audit, which has responsibility for providing independent assurance over the risk management and business processes

"Three lines of defence" governance model



Categories of risk

The core components of Discovery's risk profile are:

- Financial risk
- Insurance risk
- Operational risk
- Strategic risk
- Macro-economic, social and environmental risk
- Business continuity risk
- Legal risk
- Information security
- Compliance risk
- Fraud and security risk.

The risk profile helps the Group manage reputational risk and guides the decision-making processes to ensure the long-term sustainability of Discovery.

Financial risk

Financial risk is the risk that Discovery will not have adequate cash flow to meet its financial obligations or be able to meet its expected level of profitability.

This type of risk is primarily a function of credit, market, liquidity and financial performance risks. In addition, financial risk is related to the relative amount of debt Discovery uses to finances its assets. A higher proportion of debt increases the likelihood that at some point Discovery will be unable to finance its debt. To this end, financial performance is also monitored.

Discovery manages financial risks in the following way:

- Discovery has appointed reputable external asset managers to manage its investments
- The Actuarial Committee reviews the overall matching of shareholder and policyholder assets
- The Shareholders Assets Investment Committee (SAIC) is a sub-committee of the Executive Committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The SAIC also sets exposure limits for exposures to individual counterparties
- Discovery periodically engages with external consultants to review past investment decisions

The Investment Committee is a sub-committee of the SAIC and meets monthly to make practical decisions regarding Discovery's liquidity and foreign currency exposure.

Insurance risk

This type of risk relates to the inherent uncertainty of insurance liabilities, such as frequency, amount and timing. It includes adverse mortality, morbidity and lapse experience.

- Mismatching and market risk is managed by recognising premium and benefit increases on insurance contracts in line with the lowest increase option available to the policyholder that will not require any other changes of premiums relative to benefits
- Lapse risk is managed through new product offerings; commission clawback where a policy lapses within the first two years of inception; maintaining client relationships to establish reasons for cancellations and to possibly conserve the policy; reinsurance; and lapse experience monitoring on a monthly basis
- Mortality and morbidity risk are managed through product design and pricing. Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk

Operational risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. This includes legal and regulatory compliance risk.

Operational risk is managed in terms of Discovery's Operational Risk Management Framework. This is a sub-framework of Discovery's Enterprise Risk Management Framework. The Operational Risk Management Framework has as its objectives to:

- Focus the business on the management of its key business success and risk factors to maximise the chances of it reaching its objectives
- Integrate the risk management process with the line management process, that is to reinforce the concept that line management is risk management
- Create a process that will establish value-added risk-reporting at all levels of the organisation to support risk analysis

Independent monitoring of operational risk throughout the business occurs through a number of functions, including Legal, Group Forensic Services, Group Compliance and Group Risk Management. Each of the functions has defined roles, responsibilities and performance objectives to ensure operational risk is managed across Discovery.

Strategic risk

Strategic risk refers to the negative impact poor business decisions, improper strategy implementation or lack of responsiveness to industry changes may have on the current or prospective earnings of Discovery.

Strategic risk is managed according to Discovery's Enterprise Risk Management Framework. Discovery recognises that risk management practices are an important part of strategic planning. Strategic goals and objectives, corporate culture and behaviour are communicated and applied throughout the Group. Strategic direction and organisational efficiency are improved by the depth and technical expertise of management. Strategic initiatives are supported by sound due diligence and strong risk management systems.

Macro-economic, social and environmental risk

Macro-economic, social and environmental risk refers to a range of issues that may impact the sustainability of Discovery. It may include internal and external stakeholder issues, as well as social and environmental risk.

- Discovery's Sustainability Division oversees internal and external stakeholder engagement and the identification of factors that impact the sustainability of the business.
- Performance is monitored against targets set by each business area

Business continuity risk

Business continuity risk relates to Discovery's inability to recover operations in the event of unexpected disruptions and disasters.

- Through business continuity management Discovery assesses business needs and identifies weaknesses
- Discovery also ensures that current business continuity strategies and plans are tested yearly, and are up to date

Legal risk

Legal risk is the risk of loss relating to ambiguity, errors and omissions in contracts resulting in the inadequate protection of the interests and assets of Discovery, or the exposure to possible claims against the business.

- Discovery has control measures in place to monitor new legislation and to identify and manage significant legal risks

Information security

Information security risk relates to a loss of data or unauthorised access to confidential data.

- Discovery has control measures in place to protect its information assets and to ensure the confidentiality, integrity and availability of its information
- Discovery's Information Security Policy defines our objectives for managing information security and outlines the processes needed across the business to ensure the security of information

Compliance risk

Compliance risk is the risk of legal or regulatory sanction, material financial loss or damage to reputation. This may happen if a business does not obey legislation, regulations, rules, organisation or industry standards, and codes of conduct.

- Discovery's Compliance Division supports the various operational areas to identify and manage their compliance risks

Fraud and security risk

Fraud and security risk relates to issues that impact the safety of customers, employees and assets. Fraud is a risk for Discovery as it is a major contributor to rising healthcare costs in the medical scheme industry, as well as the life insurance industry.

- Discovery's Code of Conduct stipulates ethical behaviour from all managers and Directors, including Non-executive Directors, employees and third-party suppliers
- We have a zero-tolerance approach to any form of fraud, dishonesty or betrayal of trust. Employees who are caught in fraudulent activity will face disciplinary action, dismissal and even criminal charges
- Our Forensic Services Department is responsible for managing the risk of fraud in Discovery. This department monitors and manages all incidents of internal and external fraud and corruption
- Discovery runs an active anti-fraud programme that includes an anonymous fraud tip-off line that is open to employees and the general public
- All new employees receive information about Discovery's Code of Conduct and fraud policy during induction

> This report sets out the remuneration philosophy and policies that Discovery has adopted in respect of executive management, employees and Non-executive Directors.

Remuneration philosophy

The remuneration process is designed to support the successful execution of the organisational strategy by:

- Attracting, motivating and retaining quality employees
- Encouraging and rewarding employees to achieve or exceed the objectives of the business
- Aligning the economic interest of employees with those of other stakeholders
- Fostering Discovery's owner-manager culture

Our philosophy is to balance a flexible approach – that recognises differences in individual performance, value and contribution to the organisation – with a consistent framework that ensures equitable pay levels and sound remuneration decisions. At all levels there are rigorous processes to ensure shareholder objectives are met or exceeded.

Responsibility for developing and governing remuneration

The Board is ultimately responsible for the remuneration policy. To assist the Board in fulfilling its responsibilities, it has appointed and mandated a Remuneration Committee, which consists of Non-executive Directors and independent experts.

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

- Approving remuneration packages for Executive Directors
- Approving policy relating to bonus and share incentive schemes
- Recommending the Non-executive Directors' fees
- Reviewing the annual salary increase process and the increase of all senior executives
- Ensuring alignment of remuneration practices with Discovery's overall remuneration philosophy

The Remuneration Committee has delegated some of its functions to the Internal Remuneration Committee. This committee is responsible for:

- Detailed analysis and development of research-based recommendations to the Remuneration Committee
- Ensuring that the remuneration packages of management and employees in general (with the exception of Directors) are in line with the policy
- Supervising the increase process and reporting any anomalies to the Remuneration Committee

The Remuneration Committee uses the services of a number of advisers to assist in tracking market trends related to all levels of employees, including PE Corporate Services, Mabili Reward, Remchannel Financial Reward Survey and 21st Century Business and Pay Solutions.

Remuneration Committee membership

MI Hilkowitz is the Chairperson of the Remuneration Committee. The Board is aware of the King III recommendation that the Board Chairperson should not chair the Remuneration Committee. The Board is of the view that the Board Chairperson is well experienced to chair the Remuneration Committee in the best interest of the company as he brings international perspective to the Board and Remuneration Committee.

Other Remuneration Committee members during the year were P Cooper, T Slabbert and M Olivier (independent remuneration expert). The Board is aware that King III recommends that the Remuneration Committee must have a majority of independent Non-executive Directors and is of the view that the current Directors are well suited to perform the committee functions. In addition, the Board has appointed M Olivier, who is an independent remuneration expert with extensive expertise and experience, to the Committee.

Meeting attendance can be found in the table on page 105.

All Remuneration Committee members have the relevant skills and experience to perform their duties.

Remuneration of Executive Directors

The Executive Directors on Discovery's Board as at 30 June 2011 were:

- A Gore
- R Farber
- H Kallner
- NS Koopowitz
- HP Mayers
- A Pollard
- JM Robertson
- B Swartzberg
- A Ntsaluba – appointed from 1 July 2011

All Executive Directors have employment contracts that may be cancelled with between one and three months' notice by either the Executive Committee or the company.

The remuneration of Executive Directors for the financial year can be found on page 245.

Remuneration packages for Executive Directors comprise the following components:

Guaranteed component

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

Comparative studies of peer groups and similar size companies are used together with market surveys data in determining the adjustments to the Executive Directors' guaranteed remuneration to ensure that remuneration is in line with the Group's remuneration philosophy.

Short-term incentives

Short-term incentives are designed to reward Executive Directors for achieving stipulated strategic annual objectives, thereby ensuring that a significant portion of Executive Directors' cost is variable.

Executive Directors' short-term incentives comprise two components:

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

Typically the split between individual and profit pool components is 25% and 50% of salary, respectively. In each case, there is a threshold below which no incentive is paid. These thresholds are set strategically based on the business area and level.

Long-term incentives

Long-term incentives aim to encourage Executive Directors to execute the long-term strategy of the Group successfully to achieve its long-term objectives. Executive Directors take part in the Group's share-based incentive scheme.

This scheme is described in more detail below, and details of the allocation to Executive Directors can be found on page 247.

Remuneration of Senior Management and employees

The aggregate remuneration of the Discovery Directors and Executive Committee members for the financial year, can be found on page 245.

Remuneration packages for Senior Management and employees contain some or all of the following components, depending on the employee's level in the Group and contribution to the key initiatives:

Guaranteed component

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

Increases in the guaranteed component are determined in line with market movements in the 50th percentile and reflect individual performance. Employees in a sales function receive a variable monthly remuneration linked directly to their productivity. The level of this remuneration is also benchmarked to the financial services market.

Short-term incentives

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

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

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

The Remuneration Committee approves the Group primary bonus pools and oversees the principles applied in allocating these pools to business units and individuals. Typically the split between individual and profit pool components is 25% and 50% of salary respectively. In each case, there is a threshold below which no incentive is paid. These thresholds are set strategically based on the business area and level.

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

Long-term incentives

Senior management, together with Executive Directors, take part in the Group's share-based incentive scheme. The overall individual performance is taken into account when the Remuneration Committee decides on each individual allocation. It is the view of the Remuneration Committee that the incentive scheme is a direct link to the company performance through the share price. This scheme is also aimed at attracting and retaining competent employees. This scheme is described in more detail below.

Share-based incentive scheme

Discovery operates a share-based incentive scheme that gives employees a bonus that is calculated according to Discovery's share price performance. Discovery pays these incentives in cash. The value of the annual allocation of the share-based incentive scheme at the date of allocation as a proportion of annual guaranteed pay varies between 30% for managers and 60% for Executive Directors. The final allocation is based on individual performance. Each year the Remuneration Committee uses the previous year's allocation and current salary level to assess the allocation and ensures that the final allocation is related to performance.

Discovery implemented this bonus scheme following the introduction of income tax legislation that requires employees to pay income tax on all gains from share options that they receive from their employment. Payments made in terms of this scheme are taxable in the hands of the employee and tax deductible for the company making the payment. Payments are made in equal proportions on the second, third, fourth and fifth anniversaries of allocation.

The participants earn a cash bonus based on the allocation of the bonus scheme units which in turn are linked to the performance of the Discovery share price. Units are issued in September each year; the vesting of the units is two, three, four and five years after allocation, subject to the vesting criteria. The cost thereof is then included in the remuneration of the executives in the year of payment. As a result, there is a timing difference between the performance of the company and the reflection of the related remuneration. This is an inevitable consequence of retention being a key objective of the scheme. For example, the units allocated to executives in September 2009 which vest from September 2011 (FY2012) will be paid over four years with the first payment in October 2011. This payment will reflect in the executive remuneration in the 2012 financial year. Similarly, the specific tranche of phantom shares issued to very senior executives in July 2009, vests over four-and-a-half years starting from September 2011. The Group CEO did not participate in this latter allocation.

Discovery has implemented a programme to hedge out the economic risk linked to the share price based on the anticipated payout of the incentive.

Further details relating to the share-based incentive scheme can be found in note 33 on page 228.

Review of long-term incentives

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

Remuneration of Non-executive Directors

The remuneration of Non-executive Directors for the financial year can be found on page 245.

Non-executive Directors' fees are reviewed annually and benchmarked against industry standards to ensure the fees remain competitive. The Remuneration Committee reviews fees, ensures that the professional benchmarking is done and makes recommendations to the Board for consideration. The Board then recommends these fees to shareholders for approval at the Annual General Meeting (AGM).

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

At the AGM held on 1 December 2009, shareholders approved a phantom share scheme for Ms SE Sebotsa, a black Non-executive Director, to replicate participation in the Discovery BEE transaction.

White Non-executive Directors do not participate in any share-based incentive scheme.

Non-executive Directors' fees

The Board determines the fees for Non-executive Directors, following a recommendation from the Remuneration Committee. The fees are reviewed annually taking into consideration the individuals' responsibilities and Board committee membership. The Chairperson is not present when his remuneration is reviewed. In addition, from time to time, the fees are benchmarked to other local and international financial services companies and companies with similar market capitalisation. The fee structure has two components: a retainer and a fee for Board or Board committee meeting attendance. The fee structure for the 2011 and 2012 financial years is shown below:

	FY 2011	As approved by the Board for FY 2012
Retainer for the Chairperson	US$262 500	R2 500 000
SA-based Board retainer	R241 000	R257 000
SA-based committee Chairperson retainer	R150 000	R160 000
SA-based committee member retainer	R86 000	R92 000
SA-based committee Chairperson attendance fee	R16 000 per meeting	R17 000 per meeting
SA-based committee member attendance fee	R11 000 per meeting	R11 700 per meeting
US-based Board retainer	US$65 100	US$67 000
UK-based Board retainer	£49 600	£51 000
UK-based committee Chairperson retainer	£16 800	£17 300
UK-based committee Chairperson attendance fee	£2 100 per meeting	£2 160 per meeting
UK-based committee member retainer	£6 700	£6 900
UK-based committee member attendance fee	£840 per meeting	£865 per meeting

The Non-executive Directors' fees for FY2012 have been increased by 6.5% for SA-based and 2.75% and 3% for USA- and UK-based respectively. The Chairperson's retainer was changed from US dollar-based to Rand-based to ensure consistency with other companies benchmarked.

> Discovery has a responsibility to ensure that our activities comply with not only local laws, regulations and supervisory requirements but also with those of the various jurisdictions in which the Group operates. To this end, the Board requires that the compliance risks associated with Discovery's business activities are clearly identified, assessed, prioritised, managed and reported on, as required by the relevant jurisdictions.

Compliance risk

Auditor independence

The Discovery financial statements have been audited by the independent auditors PricewaterhouseCoopers Inc. Discovery believes that the External Auditors have followed the highest level of business and professional ethics. It believes that the External Auditors have always acted with independence.

Details of fees paid to the External Auditors for audit and non-audit services are disclosed in the Group's Annual Financial Statements. The Audit and Risk Committee reviewed all auditor fees and pre-approved all non-audit services.

CA(SA) is the risk that our compliance controls and procedures – implemented to comply with laws, regulations, supervisory requirements or industry codes – may be inadequate or ineffective. Non-compliance may result in potential legal or regulatory sanction, financial loss or reputational damage.

Regulatory requirements that apply to the financial services sector have grown more stringent every year. Our compliance with these requirements is fundamental to our sustainability and viability. For this reason we continuously focus on our compliance with these requirements across all business areas within the Group.

Our approach to compliance

The Discovery Board of Directors, through the Audit and Risk Committee, has delegated the responsibility to implement a Governance Framework that applies to all Discovery operations, to the Chief Compliance Officer. This framework includes the continuous development of a 'Compliance Culture', as well as processes that ensure compliance risks and regulatory change risks are identified, prioritised, managed and monitored appropriately. It also requires that regular reports are presented to Discovery's Executive Committee and to the Board.

Group Compliance is also responsible for the implementation and monitoring of an Anti-Money Laundering Control Framework within the Group.

While our local business operations are supported by experienced compliance officers within a centralised compliance team, our UK and USA business areas are supported by a dedicated compliance team in the UK and USA respectively. These teams work closely with the Group Compliance Function in South Africa.

This allows the Group Compliance function to set standards and guidelines that apply to both the local and international business operations. It also enables the Compliance function to perform independent monitoring and to provide easy access to technical expertise in terms of specific regulatory requirements.

This structure enforces the independence of the Compliance function and ensures a dedicated focus on compliance matters throughout all businesses. A requirement of the King III Code of Good Governance, we view this independence and committed focus on compliance as essential for good corporate governance in Discovery.

Regulatory environment

We are accountable to the various regulatory authorities who control the different industries and jurisdictions in which we operate. We engage with our regulators on a formal and informal basis and key representatives in our business are responsible for maintaining this relationship. Our objective is to maintain a relationship of trust and transparency with our regulators.

Our important regulators are:

Financial Services Board (FSB): South Africa	The FSB regulates the non-banking aspects of the financial services industry, including pension funds, long-term and short-term insurance, collective investment schemes and financial advisory and intermediary services
National Credit Regulator (NCR): South Africa	The NCR was established to regulate the South African credit industry
Council for Medical Schemes (CMS): South Africa	The CMS was established to provide regulatory supervision of private health financing through medical schemes
Financial Intelligence Centre (FIC): South Africa	The FIC was established to identify the proceeds of unlawful activities and to combat money laundering activities
Department of Trade and Industry (DTI): South Africa	The DTI focuses on consumer protection and develops legislation to encourage appropriate business practices and enable consumers to exercise their rights
Consumer Commissioner: South Africa	The Office of the Consumer Commissioner was established with the implementation of the Consumer Protection Act in April 2011 and is responsible for establishing consumer rights
Financial Services Authority (FSA): UK	The FSA is the regulator of the financial services industry in the UK
Information Commissioner: UK	The Information Commissioner's Office is the UK's independent authority. It was set up to uphold information rights in the public interest, promoting openness by public bodies and data privacy for individuals

Our key focus areas during 2011

During the year we focused on the following areas to support Discovery's Board of Directors, Executive Committee, managers and employees to perform their responsibilities in terms of compliance. These key focus areas were:

- **Monitoring and identifying regulatory and compliance changes, and implementing controls to meet requirements:** Discovery operates in a dynamic and continuously evolving regulatory environment. For this reason we constantly monitor changes in this environment to ensure that the appropriate controls are implemented in the various business areas when required
- **Regulatory frameworks:** Regulatory frameworks are updated on a quarterly basis while controls are monitored on an ongoing basis. We use a risk-based approach to monitor controls and any non-compliance is reported using the governance processes within the Discovery Group
- **General guidance and support to business:** Our Group Compliance function assists management and business operations with the implementation of appropriate compliance controls to comply and assists business with the management of incidents of non-compliance
- **Compliance monitoring:** Compliance risks were monitored and tracked by regulators, management, Internal Audit and Group Compliance. Monitoring conducted by regulators is high level and focused on individual supervisory themes while monitoring conducted by management forms part of day-to-day operations. Group Compliance uses a risk-based methodology whereby the appropriateness and efficiency of compliance controls were verified. No significant financial penalties or regulatory censure were imposed for the financial year
- **Regulatory training and awareness:** A training programme exists to train employees and management on relevant aspects of the regulatory requirements

Our key priorities for 2012

During the next year the areas of compliance focus will include:

- Ensuring the protection of our clients' rights and personal information
- Strengthening our anti-money laundering controls and programme
- Continued strengthening of our Information Security Controls

Ensuring the protection of our clients' rights and personal information

We are continuing work on the projects initiated in 2009 to strengthen and support the controls and procedures around the protection of our clients' rights and their personal information.

We have made substantial progress with the implementation of these controls and procedures. The remaining areas that require focus during 2012 are those areas impacted by the Protection of Personal Information Bill.

Strengthening our anti-money laundering controls and programme

Discovery supports national and international initiatives aimed at strengthening controls to prevent money laundering. During the past year, the regulators have increased their focus on enhancing the regulatory environment around the prevention of money laundering.

As part of the non-banking industry initiatives working with the regulatory authorities, we remain committed to the implementation of appropriate controls within Discovery to address the regulatory requirements in this area. During the past year we have implemented a new system enabling us to manage our responsibility in respect of anti-money laundering more effectively.

Continued strengthening of our Information Security controls

The Information Security function forms part of Group Compliance. This structure provides appropriate segregation of roles and aims to strengthen the governance within the IT environment.

During the past financial year we have focused on embedding the Information Security framework within all operations in the Group. This framework focuses on the effective and efficient management of information resources within the Group.

Information Security controls and procedures were also reviewed to ensure they align with the requirements of the King III Code on Corporate Governance and the requirements included in the Protection of Personal Information Bill.

The Information Security function will provide annual feedback to the Board on matters related to IT Governance and Information Security.

Regulatory developments

A number of new regulatory requirements will have an impact on the business areas during 2012. The most important are:

- *Fit and Proper requirements for Key Individuals and Representatives*
  The FSB issued new fit and proper requirements that apply to all key individuals and representatives from 1 January 2010. Discovery has implemented an internal training programme for all our key individuals and representatives to facilitate the regulatory exam process. This will ensure that they meet the minimum requirements by 30 June 2012.

  Discovery also recognises the importance of the regulatory exams to the independent intermediary community and a programme was established to provide training and support to this community. This programme is in line with the exemption published by the Registrar of Financial Services

- *Treating Customers Fairly ("TCF")*
  Discovery remains committed to the Financial Services Board's objective of implementing the TCF Framework in South Africa

  Our UK operations already comply with the TCF Framework implemented by the FSA in the UK. This will provide a framework for the controls to be implemented in South Africa

- *Protection of Personal Information Bill*
  We have implemented a number of initiatives across our South African operations to ensure that our controls are in line with the requirements of this Bill

Global Reporting Initiative content index

● Full reporting ◐ Partial reporting ○ Not reported yet, to be considered ⊗ Not reported as not material to our business ✓ Management approach

GRI Indicator	Topic	Page	Level of reporting	Description
Organisational strategy and analysis				
1.1	Statement from the most senior decision-maker of the organisation	24	●	Report from Adrian Gore, Chief Executive Officer, Discovery
1.2	Description of key impacts, risks, and opportunities	10, 16, 18	●	• Where we make a difference • Our key risks • Our stakeholders
Organisational profile				
2.1 – 2.10	Name, brands, areas of operation, operational structure, markets served	8	●	About Discovery
Report parameters				
3.1 – 3.4	Reporting period, reporting cycle, date of last report and contact person	4	●	About this report
3.5 – 3.11	Report scope and boundary	4	◐	About this report
3.12	Standard disclosures	4	●	About this report
3.13	Assurance	4	◐	About this report
Governance, commitments and engagement				
4.1 – 4.10	Corporate governance	102	●	Corporate Governance
4.11 – 4.13	Commitments to external initiatives	18	◐	Our stakeholders
4.14 – 4.17	Stakeholder engagement	18	◐	Our stakeholders
Economic				
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	Report to Society: www.discovery.co.za 12	●	Our performance highlights Value-added statement
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change		○	
EC3	Coverage of the organisation's defined benefit plan obligations		○	
EC4	Significant financial assistance received from government		⊗	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation		○	
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation		⊗	
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation		⊗	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	Report to Society: www.discovery.co.za 34	●	Our sustainability performance Report to Society
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	24 28	●	Report from Adrian Gore, Chief Executive Officer Interview with Richard Farber, Financial Director

● Full reporting ◐ Partial reporting ○ Not reported yet, to be considered ⊗ Not reported as not material to our business ✓ Management approach

GRI Indicator	Topic	Page	Level of reporting	Description
Environmental				
EN1	Materials used by weight or volume		⊗	
EN2	Percentage of materials used that are recycled input materials		⊗	
EN3	Direct energy consumption by primary energy source	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators, Report to Society Our environmental responsibility
EN4	Indirect energy consumption by primary source	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
EN5	Energy saved due to conservation and efficiency improvements	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives		○	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved		○	
EN8	Total water withdrawal by source	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
EN9	Water sources significantly affected by withdrawal of water		⊗	
EN10	Percentage and total volume of water recycled and reused		○	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		⊗	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		⊗	
EN13	Habitats protected or restored		⊗	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity		⊗	
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk		⊗	
EN16	Total direct and indirect greenhouse gas emissions by weight	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
EN17	Other relevant indirect greenhouse gas emissions by weight	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved		○	

● Full reporting ◐ Partial reporting ○ Not reported yet, to be considered ⊗ Not reported as not material to our business ✓ Management approach

GRI Indicator	Topic	Page	Level of reporting	Description
EN19	Emissions of ozone-depleting substances by weight		⊗	
EN20	NOx, SOx, and other significant air emissions by type and weight		⊗	
EN21	Total water discharge by quality and destination		⊗	
EN22	Total weight of waste by type and disposal method	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
EN23	Total number and volume of significant spills		⊗	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally		⊗	
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff		⊗	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation		○	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category		⊗	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce		⊗	
EN30	Total environmental protection expenditures and investments by type	Report to Society: www.discovery.co.za 44	● ✓	Key sustainability indicators Our environmental responsibility
Labour				
LA1	Total workforce by employment type, employment contract, and region	Report to Society: www.discovery.co.za 36	● ✓	Key sustainability indicators A values based culture of opportunity
LA2	Total number and rate of employee turnover by age group, gender, and region		○	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations		○	
LA4	Percentage of employees covered by collective bargaining agreements		⊗	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements		⊗	
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes		⊗	

● Full reporting ◐ Partial reporting ○ Not reported yet, to be considered ⊗ Not reported as not material to our business ✓ Management approach

GRI Indicator	Topic	Page	Level of reporting	Description
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region		⊗	
LA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Report to Society: www.discovery.co.za 36	● ✓	Key sustainability indicators A values based culture of opportunity
LA9	Health and safety topics covered in formal agreements with trade unions		○	
LA10	Average hours of training per year per employee by employee category	Report to Society: www.discovery.co.za 36	● ✓	Key sustainability indicators A values based culture of opportunity
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Report to Society: www.discovery.co.za 36	● ✓	Key sustainability indicators A values based culture of opportunity
LA12	Percentage of employees receiving regular performance and career development reviews		○	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	Report to Society: www.discovery.co.za 36	● ✓	Key sustainability indicators A values based culture of opportunity
LA14	Ratio of basic salary of men to women by employee category		○	
Human Rights				
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening		○	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken		○	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		○	
HR4	Total number of incidents of discrimination and actions taken	Report to Society: www.discovery.co.za 36	●	Key sustainability indicators
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights		⊗	
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour		⊗	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour		⊗	
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations		⊗	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken		⊗	

Full reporting | Partial reporting | Not reported yet, to be considered | Not reported as not material to our business | ✓ Management approach

GRI Indicator	Topic	Page	Level of reporting	Description
Society				
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	Report to Society: www.discovery.co.za 38	Full reporting ✓	Key sustainability indicators Strengthen the healthcare system
SO2	Percentage and total number of business units analysed for risks related to corruption		Not reported yet, to be considered	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures	Report to Society: www.discovery.co.za 43	Full reporting ✓	Key sustainability indicators Promote a stable society
SO4	Actions taken in response to incidents of corruption	Report to Society: www.discovery.co.za 43	Full reporting ✓	Key sustainability indicators Promote a stable society
SO5	Public policy positions and participation in public policy development and lobbying		Not reported yet, to be considered	
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country		Not reported yet, to be considered	
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes		Not reported yet, to be considered	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		Full reporting ✓	Key sustainability indicators Promote a stable society
Product Responsibility				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Report to Society: www.discovery.co.za 43	Not reported as not material to our business	
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes		Not reported as not material to our business	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements		Not reported as not material to our business	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes		Not reported as not material to our business	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		Full reporting	
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship		Full reporting	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes		Full reporting	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		Not reported yet, to be considered	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Report to Society: www.discovery.co.za	Full reporting ✓	Key sustainability indicators

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11

Annual

FIN

2011

*These Annual Financial Statements cover the company and consolidated financial results of Discovery Holdings Limited and its subsidiaries

ANCIAL Statements

Five-year review

For the year ended 30 June

	Group 2007	Group 2008	Group 2009	Group 2010	**Group 2011**	Compound growth %
New business API (R million)	4 834	5 144	5 866	7 618	**7 458**	11%
Gross inflows under management (R million)						
Gross inflows under management	23 911	28 006	33 591	41 235	**50 052**	20%
Less: Collected on behalf of third parties	17 338	20 390	24 576	28 813	**32 198**	17%
Gross income of Group	6 573	7 616	9 015	12 422	**17 854**	28%
Income statement extracts (R million)						
Profit from operations	1 476	1 712	1 854	2 514	**2 914**	19%
Headline earnings	886	934	1 238	1 545	**1 638**	17%
Abnormal expenses	34	23	13	6	**390**	
Normalised headline earnings	920	957	1 251	1 551	**2 028**	22%
Diluted normalised headline earnings per share (cents)	168.4	174.7	226.5	278.8	**365.5**	21%
Statement of financial position extracts (R million)						
Total assets	8 903	11 038	14 931	20 994	**30 905**	36%
Shareholders' funds	5 362	6 164	7 013	8 382	**8 973**	14%
Embedded value						
Embedded value (R million)	14 166	17 881	20 040	22 558	**26 890**	17%
Diluted embedded value per share (R)	25.64	32.05	35.83	40.31	**47.86**	17%
Key ratios						
Return on average equity (%)	22	20	18	22	**30**	
Return on average assets (%)	14	12	9	10	**10**	
Capital adequacy requirement (times)	10.5	7.0	7.7	8.0	**3.6**	
Exchange rates						
Rand/US$						
– Closing	7.07	7.82	7.73	7.66	**6.77**	
– Average	7.21	7.30	8.88	7.59	**6.96**	
Rand/GBP						
– Closing	14.17	15.60	12.71	11.48	**10.84**	
– Average	13.99	14.66	14.08	11.96	**11.08**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	536 560	543 016	551 043	554 117	**554 847**	
– Diluted weighted average (000's)	546 579	547 530	552 591	556 257	**555 056**	
– End of period (000's)	591 953	591 953	591 953	591 953	**591 872**	
Price/diluted headline earnings (times)	17.9	12.7	11.5	12.6	**10.5**	
Share price (cents per share):						
– High	3 350	3 047	2 840	3 700	**4 095**	
– Low	2 020	2 060	1 814	2 535	**3 410**	
– Closing	2 903	2 170	2 584	3 505	**3 855**	
Market capitalisation (R million)	17 184	12 845	15 296	20 748	**22 817**	

Directors' responsibility statement

For the year ended 30 June 2011

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

The Directors of Discovery are required by the Companies Act (Act 71 of 2008), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying Annual Financial Statements, International Financial Reporting Standards have been used and reasonable estimates have been made. The Annual Financial Statements incorporate full and responsible disclosure, in line with Discovery's philosophy on corporate governance.

The Directors have reviewed Discovery's budget and flow of funds forecast for the year to 30 June 2012. On the basis of this review, and in light of the current financial position and available cash resources, the Directors have no reason to believe that Discovery will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the Annual Financial Statements.

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

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

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

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

Discovery's External Auditors, PricewaterhouseCoopers Inc., have audited the Annual Financial Statements and their unqualified report appears on page 130.

The Annual Financial Statements of Discovery for the year ended 30 June 2011, which appear on pages 131 to 132 and 142 to 249, have been approved by the Board of Directors on 31 August 2011 and are signed on its behalf by:

A Gore
Chief Executive Officer

R Farber
Financial Director

Certificate by the Company Secretary

For the year ended 30 June 2011

It is hereby certified in terms of section 88(2)(e) of the Companies Act, that Discovery Holdings Limited has for the year ended 30 June 2011 lodged with the Registrar of Companies all such returns as are required by a public company in terms of this Act and that all such returns are true, correct and up to date.

MJ Botha
Company Secretary

Report of the Audit and Risk Committee
For the year ended 30 June 2011

We are pleased to present our report for the financial year ended 30 June 2011. The Audit and Risk Committee (the committee) is an independent statutory committee. Duties are delegated to the committee by the Board of Directors of Discovery Holdings Limited (the Company).

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

Audit Committee terms of reference

The committee has adopted formal terms of reference that have been approved by the Board of Directors and are reviewed at least annually. The committee has conducted its affairs in compliance with its terms of reference and has discharged the responsibilities contained therein.

Audit Committee members, meeting attendance and assessment

The committee consists of three independent, Non-executive Directors. It meets at least four times per annum as per its terms of reference.

The Chairperson of the Discovery Holdings Board and Non-executive Directors are entitled to attend meetings after informing the Chairperson of the committee. The Chief Executive Officer, Financial Director and executive Directors attend meetings or parts of meetings by invitation only. The head of Internal Audit and the External Auditor meet with the committee before each meeting without management present, and attend meetings or parts of meetings by invitation. The Chairperson of the committee meets regularly with the Financial Director and the heads of Internal Audit, Risk and Compliance and External Audit.

The membership, qualifications and attendance of the members of the committee are as follows:

Committee member	Qualifications(1)	Number of meetings held during 12 months ended 30 June 2011	Number of meetings attended
AL Owen (Chairperson)	BSc (Hons), FIA, FPMI	5	5
SE Sebotsa	LLB (Hons), MA	5	3
SV Zilwa	BCompt (Hons),CTA, CA(SA)	5	3

(1) Abridged curriculum vitae of the committee members appear on pages 22 to 23 of the Integrated Annual Report.

The effectiveness of the committee and its individual members were assessed during the year.

Role and responsibilities

Statutory duties

The committee's role and responsibilities include statutory duties as per the Companies Act, 2008, and further responsibilities assigned to it by the Board.

The committee executed its duties in accordance with its terms of reference and applicable laws and regulations in force during the 12 months ended 30 June 2011.

External Auditor appointment and independence

The committee considered the matters set out in section 94 of the Companies Act, 2008, and nominated PricewaterhouseCoopers Inc. for appointment as External Auditor of Discovery.

The committee has satisfied itself that the External Auditor is independent of the Company, as set out in section 94(8) of the Companies Act, 2008. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

The committee ensured that the appointment of the auditor complied with the Companies Act, 2008, and any other legislation relating to the appointment of auditors.

The committee, following consultation with executive management, approved the engagement letter, terms, audit plan and budgeted audit fees for the year ending 30 June 2011.

There is a formal policy in respect of the provision of non-audit services by the External Auditors of the Group and its subsidiaries, and a formal procedure governs the process whereby the auditor is appointed to provide any non-audit services. The Chairperson of the committee approves the nature and extent of any non-audit services that the External Auditor provides in terms of the agreed pre-approval policy and a schedule of approved non-audit services is reviewed annually by the committee.

Financial statements and accounting practices

The committee has reviewed the accounting policies, the Group Annual Financial Statements and the Annual Financial Statements of the Company and is satisfied that they are appropriate and comply with International Financial Reporting Standards. A process has been established to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the Company. No matters of significance have been raised in the past financial year.

Internal financial controls

The committee is responsible for assessing the Group's systems of internal financial and accounting control. In this regard the committee has, inter alia, evaluated the adequacy and effectiveness of the Group's systems of internal control and made appropriate recommendations to the Board. This has included a formal documented review by the Internal Audit function of the design, implementation and effectiveness of the Company's system of internal financial controls. Based on the results of this review, it is the view of the committee that reasonable assurance can be placed on the Discovery Group's internal financial controls, relative to the fair representation of the Annual Financial Statements.

Evaluation of the expertise and experience of the Financial Director

The committee reviewed and satisfied itself of the appropriateness of the expertise, resources and experience of the Company's Financial Director, Mr R Farber, whose curriculum vitae appears on page 98 of the Integrated Annual Report.

Whistle blowing

The committee receives and deals with any concerns or complaints, whether from within or outside the Company, relating to the accounting practices and Internal Audit of the Company, the content or auditing of the Company's financial statements, the internal financial controls of the Company and related matters. No such concerns or complaints were received during the year.

Ethics and compliance

The committee is responsible for reviewing any major breach of the Group's Code of Conduct and Ethics and relevant legal, regulatory and other obligations. The committee is satisfied that there has been no material breach of these standards or material non-compliance with laws and regulations. The committee is satisfied that it has complied with all its legal, regulatory and other obligations during the period under review.

Risk management

The committee monitors the risk management processes and systems of internal control for the Group through review of reports from and discussions with the Group's Internal and External Auditors and the Group's risk management function.

The committee is satisfied that the system and process of risk management is effective.

Opinion

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

The committee has evaluated the Group Annual Financial Statements and the Annual Financial Statements of Discovery Holdings Limited for the year ended 30 June 2011 and, based on the information provided to the committee, considers that the Group complies, in all material respects, with the requirements of the Companies Act, 71 of 2008, and International Financial Reporting Standards.

The committee has recommended the Financial Statements to the Board for approval. The Board has subsequently approved the Financial Statements which will be open for discussion at the forthcoming Annual General Meeting.

AL Owen

AL Owen
Chairperson: Audit and Risk Committee

31 August 2011

Independent Auditor's Report

For the year ended 30 June 2011

To the members of Discovery Holdings Limited

We have audited the Group Annual Financial Statements and Annual Financial Statements of Discovery Holdings Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2011, and the consolidated and separate income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, and the Directors' Report, as set out on pages 131 to 132 and 142 to 249.

Directors' responsibility for the financial statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and for such internal control the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Discovery Holdings Limited as at 30 June 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: **AG Taylor**
Registered Auditor

31 August 2011
Sunninghill

The Directors present their 12th Annual Report, which forms part of the audited financial statements of the Company and of the Group for the year ended 30 June 2011.

Nature of business

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

- Discovery Health (Proprietary) Limited (Discovery Health);
- Discovery Life Limited (Discovery Life);
- Discovery Life Collective Investments (Proprietary) Limited (Discovery Life Collective Investments);
- Discovery Life Investment Services (Proprietary) Limited (Discovery Life Investment Services);
- Discovery Life Nominees (Proprietary) Limited;
- Discovery Third Party Recovery Services (Proprietary) Limited (DTPRS);
- Vitality Healthstyle (Proprietary) Limited (Discovery Vitality);
- Discovery Investment Management (Proprietary) Limited (dormant);
- Business Venture Investments No. 26 (Proprietary) Limited;
- Discovery Insure Limited (Discovery Insure);
- Vitality Healthstyle Travel (Proprietary) Limited (dormant);
- Destiny Health Inc. (Destiny Health), which is incorporated in the United States of America;
- Destiny Health Management Company LLC, which is incorporated in the United States of America;
- Destiny Health Insurance Company, which is incorporated in the United States of America;
- Destiny Health Administration Company (dormant), which is incorporated in the United States of America;
- The Vitality Group Inc. (The Vitality Group) and The Vitality Group LLC, which are incorporated in the United States of America;
- Discovery Offshore Holdings Limited (DOHL), which is incorporated in England and Wales; and
- Prudential Health Holdings Limited (PruHealth) which is incorporated in England and Wales. This company holds Discovery's interest in Prudential Health Limited, Prudential Health Services Limited and with effect from 1 August 2010, Prudential Health Insurance Limited (previously Standard Life Healthcare).

Discovery Health is a specialised administrator offering various services to medical schemes, Discovery Life and PruHealth. Discovery Life is a long-term insurer in South Africa and offers a suite of risk benefit products and investment products in the South African market. Discovery Vitality offers a rewards programme incentivising its members to lead healthy lives and rewarding lifestyles. In the United States, The Vitality Group offers the Vitality product on a stand-alone basis to employer groups and health plans. Discovery, together with Prudential Assurance Company Limited, has a 50% (75% with effect from 1 August 2010) interest in PruHealth which provides and administers health insurance products to employer groups and individuals in the United Kingdom. PruHealth is also entitled to the profits or losses, assets and liabilities of PruProtect, a joint venture to provide consumer-engaged life insurance to clients in the United Kingdom on Prudential Assurance Company's licence. Discovery Insure is a short-term insurer in South Africa, and offers personal insurance products in the retail market.

Discovery Holdings Limited and its subsidiaries are referred to herein as Discovery or the Group. The subsidiaries are wholly-owned with the exception of Destiny Health in which Discovery has a 99.98% interest and PruHealth in which the Company has a 75% interest with effect from 1 August 2010.

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

- Discovery 2010 Fund;
- Discovery 2015 Fund;
- Discovery 2020 Fund;
- Discovery 2025 Fund;
- Discovery 2030 Fund;
- Discovery 2035 Fund;
- Discovery 2045 Fund;
- Discovery Absolute Return Fund;
- Discovery Cautious Balanced Fund;
- Discovery Global Balanced Fund; and
- Discovery Money Market Fund.

Share capital

The authorised share capital at 30 June 2011 was 1 000 000 000 ordinary shares of 0.1 cent per share. The issued share capital of the Company at 30 June 2011 was 591 872 390 ordinary shares of 0.1 cent per share.

At a general meeting of Discovery shareholders held on 2 August 2011, the authorised share capital was increased as follows:

Number of shares	Class of shares	R'000
1 000 000 000	Ordinary shares of 0.1 cent per share	1 000
40 000 000	A preference shares	*
20 000 000	B preference shares	2 000 000
20 000 000	C preference shares	*

** Value of share capital to be determined in accordance with each relevant A preference share and C preference share resolution passed by the Directors of Discovery, as may be applicable.*

On 15 August 2011, Discovery issued 8 000 000 B preference shares at an issue price of R100 each.

Dividends

An interim dividend of 42 cents per share was paid on 22 March 2011.

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 was R305 million (2010: R275 million) and was covered 3.6 times (2010: 8.0 times).

Cash dividend declaration:

The Board has declared a final dividend of 48 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 7 October 2011
– Date trading commences "ex" dividend	Monday, 10 October 2011
– Record date	Friday, 14 October 2011
– Date of payment	Monday, 17 October 2011

Share certificates may not be dematerialised or rematerialised between Monday, 10 October 2011 and Friday, 14 October 2011, both days inclusive.

Directorate and Secretary

Details of the Directors, their emoluments, participation in share incentive schemes and interests in the Company are reflected on pages 245 to 248.

Dr A Ntsaluba (Executive Director) and Mr J Durand (Non-executive Director) were appointed subsequent to the year-end, on 1 July 2011 and 25 August 2011 respectively.

Mr L Owen, Ms S Sebotsa, Dr V Maphai and Ms T Slabbert retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Mr MJ Botha continues in office as Company Secretary. His details are reflected on page 101.

Directors' interests in contracts

No material contracts involving Directors' interests were entered into in the current year. The Directors had no interest in any third party or company responsible for managing any of the business activities of Discovery.

Subsidiaries

Details of the Company's subsidiaries are set out in note 1 to the Discovery Holdings Limited's company financial statements.

Borrowing powers

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

Auditors

It will be proposed at the Annual General Meeting of shareholders, that PricewaterhouseCoopers Inc. continue in office in accordance with section 90(1) of the Companies Act.

Special resolutions

Passed by Discovery Holdings

Details of special resolutions passed by the Discovery Holdings shareholders are set out on page 244.

Passed by subsidiaries of Discovery Holdings

Discovery Insure:

- conversion of private company to a public company;
- registration of new articles of association;
- financial assistance in terms of section 44 and 45 of the Companies Act;
- subdivision of shares and increase in authorised share capital; and
- authorisation of preference share capital.

Assurance Report of the Independent Auditors

For the year ended 30 June 2011

Report on review of the value of in-force business and the value of new business in the embedded value report of Discovery Holdings Limited and its subsidiaries to the Directors of Discovery Holdings Limited

We have reviewed the value of in-force business and the value of new business in the attached embedded value report of Discovery Holdings Limited and its subsidiaries (together the "Group") for the year ended 30 June 2011 as set out on pages 134 to 141.

Directors' responsibility for the Group embedded value report

The Company's Directors are responsible for the preparation and presentation of the Group embedded value report in terms of the embedded value basis set out on the first page of the embedded value statement. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of the Group embedded value report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate embedded value principles; and making valuation estimates that are reasonable in the circumstances.

Scope of review

We conducted our review in accordance with International Standard on Review Engagement 2410, which applies to a review of historical financial information performed by the independent auditor of the entity. A review of financial information consist of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review of the consolidated value of in-force business and the value of new business of Discovery Holdings Limited and its subsidiaries as included in the embedded value statement for the year ended 30 June 2011, nothing has come to our attention that causes us to believe that the Group embedded value report is not prepared, in all material respects, in accordance with the embedded value basis set out on the first page of the embedded value statement.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: **AG Taylor**
Registered Auditor

31 August 2011
Sunninghill

Embedded value statement

For the year ended 30 June 2011

The embedded value of Discovery at 30 June 2011 consists of the following components:

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

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

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

The embedded value includes the insurance and administration profits of the subsidiaries in the Discovery Holdings Group. Covered business includes business written through Discovery Life, Discovery Invest, Discovery Health, Discovery Vitality, PruHealth and PruHealth Insurance Limited (previously Standard Life Healthcare) in the United Kingdom. Due to the increased scale and stability of the business, business written through PruProtect is now included as covered business, and Discovery's 75% share of the PruProtect value of in-force business is included in the Discovery Group embedded value. For The Vitality Group (USA) and Discovery Insure, no published value has been placed on the current in-force business.

As PruHealth Insurance Limited and PruProtect are only included in the value of in-force with effect from 30 June 2011, the profit from new business for these entities is excluded from embedded value earnings.

During the past financial year, Discovery acquired Standard Life Healthcare and increased its shareholding in the Prudential joint venture from 50% to 75%, announced a venture with Humana in the United States, and launched a short term insurer, Discovery Insure. Put options were granted to the non-controlling interests in these subsidiaries. The put option entitles the non-controlling interest to sell its interest in the subsidiary to companies within the Discovery Group at specified future dates.

For accounting purposes, in accordance with IAS 32, Discovery has consolidated 100% of the subsidiaries results and has recognised the fair value of the non-controlling interest, being the present value of the estimated purchase price, as a financial liability in the Statement of Financial Position (Puttable non-controlling interest). For embedded value purposes at 30 June 2011, the financial liability in excess of the non-controlling interest in the net asset value and the non-controlling share of the losses included in retained earnings over the reporting period was added back to the adjusted net worth. The values for PruHealth, PruHealth Insurance Limited and PruProtect at 30 June 2011 reflect Discovery's 75% shareholding at that date (values for PruHealth in prior periods reflect Discovery's 50% shareholding).

Group embedded value

The Group embedded value is shown in Table 1 below.

Table 1: Group embedded value

R million	30 June 2011	30 June 2010	% change
Shareholders' funds	**8 969**	8 382	7
Adjustment to shareholders' funds from published basis[(1)]	**(6 381)**	(4 883)	
Adjusted net worth	**2 588**	3 499	(26)
– Free Surplus	**696**	2 440	
– Required Capital[(2)]	**1 892**	1 059	
Value of in-force covered business before cost of capital	**24 853**	19 996	
Cost of required capital	**(505)**	(351)	
Cost of STC[(3)]	**(46)**	(586)	
Discovery Holdings embedded value	**26 890**	22 558	19
Number of shares (millions)	**555.0**	553.9	
Embedded value per share	**R48.45**	R40.72	19
Diluted number of shares (millions)	**591.2**	591.3	
Diluted embedded value per share[(4)]	**R47.86**	R40.31	19

(1) The published shareholders' funds was decreased to eliminate net assets under insurance contracts, deferred tax and deferred acquisition costs at June 2011 of R6 126 million (June 2010: R4 858 million) in respect of Life, R93 million (June 2010: R25 million) in respect of PruHealth and PruHealth Insurance Limited and R45 million in respect of PruProtect. The June 2011 shareholders' funds was decreased by R1 510 million representing Discovery's share of goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture.

The June 2011 shareholders' funds was increased by R1 301 million reflecting the value of the puttable non-controlling interest liability in excess of the non-controlling interest in the net asset value and R92 million reflecting the non-controlling share of the losses included in retained earnings over the reporting period.

(2) The required capital at June 2011 for Life is R610 million (June 2010: R550 million), for Health and Vitality is R437 million (June 2010: R395 million), for PruHealth and PruHealth Insurance Limited is R730 million (June 2010: R114 million) and for PruProtect is R115 million. For Life, the required capital was set equal to two times the statutory Capital Adequacy Requirement (CAR). For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For PruHealth, the long-term required capital amount has increased from 18% to 19.8% of annualised premium income. Allowance has also been made for additional capital required by PruHealth over the next 18 months. For PruHealth Insurance Limited, the required capital amount was set equal to 18% of annualised premium income. For PruProtect, the required capital was set equal to the UK Pillar 1 capital requirement.

(3) Following publication of the draft Taxation Laws Amendment Bill, 2011, it is expected that STC will be replaced by a dividend withholding tax with effect from 1 April 2012. The cost of STC at 30 June 2011 has been calculated based on the dividends expected to be declared prior to 1 April 2012.

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

Value of in-force business

The value of in-force business is shown in Table 2 below.

Table 2: Value of in-force covered business

R million	Value before cost of capital and STC	Cost of required capital	Cost of STC	Value after cost of capital and STC
at 30 June 2011				
Health and Vitality	**11 610**	**(155)**	**(21)**	**11 434**
Life and Invest[1]	**11 969**	**(182)**	**(23)**	**11 764**
PruHealth and PruHealth Insurance Limited[2][3]	**1 077**	**(140)**	**(2)**	**935**
PruProtect[4]	**197**	**(28)**	**(0)**	**169**
Total	**24 853**	**(505)**	**(46)**	**24 302**
at 30 June 2010				
Health and Vitality	9 896	(145)	(289)	9 462
Life and Invest[1]	9 902	(174)	(291)	9 437
PruHealth[2]	198	(32)	(6)	160
Total	19 996	(351)	(586)	19 059

(1) Included in the Life and Invest value of in-force covered business is R345 million (June 2010: R226 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.

(2) The value of in-force has been converted using the closing exchange rate of R10.84/GBP (June 2010: R11.48/GBP). The values for PruHealth at 30 June 2011 reflect Discovery's 75% shareholding at that date (values in prior periods reflect Discovery's 50% shareholding).

(3) This includes Discovery's 75% share of the value of the PruHealth Insurance Limited business in-force at 30 June 2011 (R708 million), less the cost of required capital (R78 million) and less the cost of STC (R1 million).

(4) The value of in-force has been converted using the closing exchange rate of R10.84/GBP. The values for PruProtect reflect Discovery's 75% shareholding in PruProtect.

Embedded value earnings

The change in embedded value from one year to the next, adjusted for capital movements, represents the embedded value earnings for Discovery.

Table 3: Group embedded value earnings

R million	Year ended 30 June 2011	Year ended 30 June 2010
Embedded value at end of period	**26 890**	22 558
Less: Embedded value at beginning of period	**(22 558)**	(20 040)
Increase in embedded value	**4 332**	2 518
Net increase in capital	**(1)**	7
Dividends paid	**445**	375
Fair value adjustment of non-controlling interest share of subsidiary	**(51)**	–
Shares issued to non-controlling interests	**–**	(2)
Transfer to hedging reserve	**30**	(12)
Embedded value earnings	**4 755**	2 886
Annualised return on opening embedded value	**21.1%**	14.4%

Components of embedded value earnings

The components of the embedded value earnings are explained below.

Table 4: Components of Group embedded value earnings

R million	Net worth	Cost of required capital	Value of in-force covered business less cost of STC	Embedded Value
Total profit from new business (at point of sale)	(1 561)	(61)	3 144	**1 522**
Profit from existing business				
– Expected return	1 710	4	521	**2 235**
– Change in methodology and assumptions	567	20	(14)	**573**
– Experience variances	(128)	4	752	**628**
Acquisition of Standard Life Healthcare and Prudential joint venture	(740)	(97)	802	**(35)**
Inclusion of PruProtect value of in-force	(45)	(28)	197	**124**
Other initiatives(1)	(208)	–	13	**(195)**
Non-recurring expenses(2)	(28)	–	–	**(28)**
Acquisition costs(3)	(3)	–	1	**(2)**
Finance costs	(38)	–	–	**(38)**
Foreign exchange rate movements	(153)	3	(18)	**(168)**
Return on shareholders' funds	139	–	–	**139**
Embedded value earnings	(488)	(155)	5 398	**4 755**

(1) This item reflects Group initiatives including expenses relating to the acquisition of Standard Life Healthcare, the investment in Ping An Health, the establishment of The Vitality Group in the United States, PruProtect, Discovery Invest and Discovery Insure.

(2) Non-recurring expenses include Group costs related to once-off marketing events and once-off remuneration costs payable on the relocation of senior executives.

(3) 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 therefore the costs are excluded.

Profit from new business

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

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

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

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

As PruHealth Insurance Limited and PruProtect are only included in the value of in-force with effect from 30 June 2011, the profits from new business for these entities are shown below but are excluded from embedded value earnings.

Table 5: Embedded value of new business

R million	Year ended 30 June 2011	30 June 2010	% change
New Business Included in Embedded Value Earnings			
Health and Vitality			
Present value of future profits from new business at point of sale	**505**	541	
Cost of required capital	**(15)**	(18)	
Cost of STC	**(1)**	(16)	
Present value of future profits from new business at point of sale after cost of required capital and STC	**489**	507	(4)
New business annualised premium income(1)	**1 698**	2 254	(25)
Life and Invest			
Present value of future profits from new business at point of sale(2)	**1 030**	879	
Cost of required capital	**(35)**	(33)	
Cost of STC	**(2)**	(26)	
Present value of future profits from new business at point of sale after cost of required capital and STC	**993**	820	21
New business annualised premium income(3)	**1 724**	1 621	6
Annualised profit margin(4)	**7.0%**	5.9%	
Annualised profit margin excluding Invest Business	**9.8%**	8.4%	
PruHealth			
Present value of future profits from new business at point of sale	**51**	16	
Cost of required capital	**(11)**	(6)	
Cost of STC	**(0)**	(0)	
Present value of future profits from new business at point of sale after cost of required capital and STC	**40**	10	300
New business annualised premium income(5)	**229**	147	56
Annualised profit margin(4)	**3.0%**	0.7%	
New Business Excluded from Embedded Value Earnings			
PruHealth Insurance Limited			
Present value of future profits from new business at point of sale	**17**		
Cost of required capital	**(2)**		
Cost of STC	**(0)**		
Present value of future profits from new business at point of sale after cost of required capital and STC	**15**		
New business annualised premium income	**64**		
Annualised profit margin(4)	**3.8%**		
PruProtect			
Present value of future profits from new business at point of sale	**129**		
Cost of required capital	**(16)**		
Cost of STC	**(0)**		
Present value of future profits from new business at point of sale after cost of required capital and STC	**113**		
New business annualised premium income	**218**		
Annualised profit margin(4)	**10.9%**		

(1) The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 30 June 2011.

The total Health and Vitality new business annualised premium income written over the period was R4 086 million (June 2010: R4 679 million).

(2) Included in the Life and Invest value of new business is R11 million (June 2010: R22 million) in respect of investment management services provided on off balance sheet investment business. Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

(3) The new business annualised premium income of R1 724 million (June 2010: R1 621 million) (single premium APE: R478 million (June 2010: R480 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 R403 million (June 2010: R392 million) and servicing increases of R347 million (June 2010: R290 million) was R2 474 million (June 2010: R2 303 million) (single premium APE: R502 million (June 2010: R486 million)). Single premium business is included at 10% of the value of the single premium.

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

(5) The 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 2011.

Expected return

The risk discount rate is the return investors would have expected to earn on the previous year's value of in-force business, assuming actual experience followed the assumptions. This amount is reflected as the expected return of R2 235 million.

Change in methodology and assumptions

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

Table 6: Methodology and assumption changes

	Health and Vitality		Life and Invest		PruHealth		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes[1]	–	–	166	(267)	–	(8)	(109)
STC[2]	–	297	–	253	–	9	559
Expenses	–	517	1	1	–	36	555
Lapses	–	–	(17)	(36)	–	(148)	(201)
Vitality	–	(129)	–	–	–	(41)	(170)
Reinsurance[3]	–	–	645	(687)	(131)	73	(100)
Mortality and morbidity	–	–	36	(29)	–	10	17
Benefit enhancements	–	–	(84)	25	–	–	(59)
Premium and benefit increases	–	–	(6)	(44)	–	(88)	(138)
Economic assumptions	–	84	(7)	179	–	11	267
Other	–	–	(36)	10	–	(22)	(48)
Total	–	769	698	(595)	(131)	(168)	573

(1) The Life and Invest modelling changes relate mainly to a change in the statutory reserving methodology for Invest policies and to the modelling of waiver of premium claims.

(2) Following publication of the draft Taxation Laws Amendment Bill, 2011, it is expected that STC will be replaced by a dividend withholding tax with effect from 1 April 2012.

(3) The reinsurance item relates to the impact of the financing reinsurance arrangements.

Experience variances

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

Table 7: Experience variances

	Health and Vitality		Life and Invest		PruHealth		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Renewal expenses	11	–	23	(2)	(56)	2	(22)
Lapses and surrenders[1]	35	442	60	143	–	(36)	644
Mortality and morbidity	–	–	47	4	30	–	81
Policy alterations[2]	–	32	(231)	182	–	–	(17)
Backdated cancellations	–	–	(27)	7	–	–	(20)
Premium income	–	–	(37)	42	–	–	5
Tax[3]	(11)	–	183	(231)	(67)	–	(126)
Reinsurance	–	–	(7)	4	1	–	(2)
Economic assumptions[4]	(0)	(25)	7	(109)	–	–	(127)
Extended modelling term	–	194	–	12	–	26	232
Other	(20)	6	(65)	56	(4)	7	(20)
Total	15	649	(47)	108	(96)	(1)	628

(1) The total Health and Vitality lapse experience variance of R477 million consists of a positive variance of R118 million due to lower than expected lapses and a positive variance of R359 million due to the net growth in existing employer groups (i.e. R927 million in respect of members joining existing employer groups during the period offset by an amount of R568 million in respect of members leaving existing employer groups).

(2) Policy alterations relate to changes to existing benefits at the request of the policyholder.

(3) The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.

(4) For Life and Invest, the economic assumptions variance relates primarily to lower than expected premium and benefit increases due to lower than expected inflation over the period.

Return on shareholders' funds

The return on shareholders' funds of R139 million represents the investment return on shareholder assets after tax and investment management charges.

Embedded value assumptions

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

General

- The South African investment return assumption was based on a single interest rate derived from the risk-free zero coupon government bond yield curve. Other economic assumptions were set relative to this yield. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption. The PruHealth and PruHealth Insurance Limited investment return assumption was derived from the sterling swap curve. The PruProtect investment return assumption was set with reference to the expected return on matching assets (or liabilities in the case of negative reserves) held on the Prudential balance sheet.
- It is assumed that, for the purposes of calculating the cost of required capital, the Life and Invest required capital amount will be backed by surplus assets consisting of 100% equities and the Health, Vitality, PruHealth and PruHealth Insurance Limited required capital amounts will be fully backed by cash. The PruProtect required capital amount is assumed to earn the same return as the assets backing the PruProtect policyholder liabilities. Allowance has been made for tax and investment expenses in the calculation of the cost of capital. In calculating the capital gains tax (CGT) liability, it is assumed that the portfolio is realised every five years. The Life and Invest cost of capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health, PruHealth and PruHealth Insurance Limited cost of capital is calculated using the difference between the risk discount rate and the net of tax cash return. The PruProtect cost of capital is calculated using the difference between the risk discount rate and the net of tax asset return assumption.
- The initial expenses included in the calculation of the value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

Health and Vitality

- The embedded value term has been set at 20 years for Health and Vitality.
- The Health administration and managed care fees are assumed to increase at the expense inflation rate.
- Lapse assumptions are based on the results of recent experience investigations. The lapse rate for the projection term after ten years was set above current experience.
- Negative turnover on employer groups is not modelled as lapses.

Life and Invest

- 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 six months to allow for the potential impact of the current economic climate on policyholder lapses.
- The embedded value projection term for group business has been set at ten years.

PruHealth and PruHealth Insurance Limited

- Assumptions were derived from internal experience augmented by industry information.
- Best estimate morbidity assumptions allow for the impact of management actions.
- The lapse rate over the short-term is assumed to be higher than the long-term expected lapse rate to allow for the impact of the current economic climate on lapses.
- The embedded value projection term has been set at 20 years.

PruProtect

- Assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Group information.

Embedded value statement

For the year ended 30 June 2011

Table 8: Embedded value economic assumptions

	30 June 2011	30 June 2010
Beta coefficient	**0.50**	0.54
Equity risk premium		
South Africa	**3.50**	3.50
United Kingdom	**4.00**	4.00
Risk discount rate (%)		
South Africa	**10.75**	10.89
United Kingdom	**6.02**	6.62
Rand/GB Pound exchange rate		
Closing	**10.84**	11.48
Average	**11.08**	11.96
Medical inflation (%)		
South Africa	**8.00**	8.00
United Kingdom	**7.00**	7.00
Expense inflation and CPI (%)		
South Africa	**5.00**	5.00
United Kingdom	**3.75**	3.75
Pre-tax investment return (%)		
South Africa		
– Cash	**7.50**	7.50
– Bonds	**9.00**	9.00
– Equity	**12.50**	12.50
United Kingdom		
– Risk free	**4.02**	3.96
– PruProtect asset return assumption	**5.59**	–
Dividend cover ratio	**4.5 times**	4.5 times
Income tax rate (%)		
South Africa	**28.00**	28.00
United Kingdom	**26.00% reducing to 23.00% in April 2014**	28.00% reducing to 24.00% in April 2014
Projection term		
– Health and Vitality	**20 years**	20 years
– Group Life	**10 years**	10 years
– PruHealth and PruHealth Insurance Limited	**20 years**	20 years

Sensitivity to the embedded value assumptions

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Professional Guidance Note PGN 107: Embedded Value Reporting. The risk discount rate, calculated in accordance with the guidance note, uses the CAPM approach with specific reference to the Discovery beta coefficient. The Discovery beta coefficient reflects the historic performance of the Discovery share price relative to the market and infers a lower allowance for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for the non-financial risks which have not been modelled explicitly. The sensitivity of the embedded value and the value of new business at 30 June 2011 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

Table 9: bedded value sensitivity

R million	Adjusted net worth	Health and Vitality: Value of in-force less cost of STC	Health and Vitality: Cost of capital	Life and Invest: Value of in-force less cost of STC	Life and Invest: Cost of capital	PruHealth and PruHealth Insurance Limited: Value of in-force less cost of STC	PruHealth and PruHealth Insurance Limited: Cost of capital	PruProtect: Value of in-force less cost of STC	PruProtect: Cost of capital	Embedded value	% change
Base	2 588	11 589	(155)	11 946	(182)	1 075	(140)	197	(28)	**26 890**	
Impact of:											
Risk discount rate + 1%	2 588	10 929	(173)	10 660	(159)	989	(134)	184	(32)	**24 852**	(8)
Risk discount rate -1%	2 588	12 320	(134)	13 519	(205)	1 172	(147)	211	(22)	**29 302**	9
Lapses -10%	2 588	12 000	(162)	13 080	(199)	1 366	(159)	210	(30)	**28 694**	7
Interest rates -1%(1)	2 588	11 553	(148)	12 493	(191)	971	(136)	208	(21)	**27 317**	2
Equity and property market value -10%	2 524	11 589	(155)	11 855	(180)	1 075	(140)	197	(28)	**26 737**	(1)
Equity and property return + 1%	2 588	11 589	(155)	12 000	(180)	1 075	(140)	197	(28)	**26 946**	0
Renewal expenses -10%	2 588	12 575	(143)	12 105	(177)	1 199	(140)	205	(27)	**28 185**	5
Mortality and morbidity -5%	2 588	11 589	(155)	12 825	(179)	1 876	(138)	213	(27)	**28 592**	6
Health, Vitality and PruHealth: Projection term +1 year	2 588	11 714	(156)	11 946	(182)	1 096	(141)	197	(28)	**27 034**	1

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

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

Table 10: Value of new business sensitivity

R million	Health and Vitality: Value of in-force less cost of STC	Health and Vitality: Cost of capital	Life and Invest: Value of in-force less cost of STC	Life and Invest: Cost of capital	PruHealth and PruHealth Insurance Limited: Value of in-force less cost of STC	PruHealth and PruHealth Insurance Limited: Cost of capital	PruProtect: Value of in-force less cost of STC	PruProtect: Cost of capital	Value of new business	% change
Base	504	(15)	1 028	(35)	68	(13)	129	(16)	**1 650**	
Impact of:										
Risk discount rate +1%	462	(17)	823	(30)	56	(13)	121	(18)	**1 384**	(16)
Risk discount rate -1%	551	(13)	1 281	(39)	78	(14)	138	(12)	**1 970**	19
Lapses -10%	530	(16)	1 217	(38)	94	(15)	142	(17)	**1 897**	15
Interest rates -1% (1)	505	(15)	1 126	(36)	58	(14)	140	(12)	**1 752**	6
Equity and property return +1%	504	(15)	1 041	(34)	66	(14)	129	(16)	**1 661**	1
Renewal expense -10%	578	(15)	1 062	(34)	78	(14)	136	(15)	**1 776**	8
Mortality and morbidity -5%	504	(15)	1 163	(34)	131	(14)	139	(15)	**1 859**	13
Health, Vitality and PruHealth: Projection term +1 year	511	(15)	1 028	(35)	70	(14)	129	(16)	**1 658**	0
Acquisition costs -10%	516	(15)	1 106	(35)	75	(14)	136	(16)	**1 753**	6

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

General information

Discovery Holdings Limited is listed in the insurance sector of the JSE Limited and is an integrated financial services organisation, specialising in health insurance, life assurance, investments and savings products, wellness and short-term insurance. The Group (Discovery) operates primarily through six wholly-owned subsidiaries which operate in South Africa: Discovery Health, Discovery Life, Discovery Collective Investments and Discovery Investment Services (Discovery Invest), Discovery Vitality and Discovery Insure. In the United Kingdom, Discovery, via a wholly-owned subsidiary, Discovery Offshore Holdings Limited, has a joint venture with Prudential plc. – the PruProtection group of companies (PruHealth and PruProtect) – which provide health and life insurance products. On 31 July 2010, Discovery increased its shareholding of PruHealth and PruProtect from 50% to 75% after acquiring a 100% shareholding in PruHealth Insurance Limited (formerly Standard Life Healthcare). In the United States, The Vitality Group offers Vitality as a stand-alone product. In May 2011, Discovery entered into a joint venture agreement with Humana through which two new entities have been formed: The Vitality Group LLC, in which Discovery has an indirect holding of 75% with Humana holding a 25% interest, and Humana Vitality LLC, in which Discovery has an indirect holding of 25% with Humana holding a 75% interest. Discovery also has a 20% share in Ping An Health, a subsidiary of Ping An Insurance (Group) Company of China, Ltd.

1. Discovery Health

Administration services

Discovery Health provides administration services and managed care services to the Discovery Health Medical Scheme as well as 11 closed schemes.

Discovery Health offered the insurance of private ward and overseas cover benefits. Members that had taken up this benefit before the distribution of it ceased, had the option to continue with this benefit. These benefits were written through Discovery Life.

2. Discovery Life

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

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

Individual life insurance

Discovery Life Plan

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

Health Plan Protector

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

Discovery Retirement Optimiser

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

DiscoveryCard Protector

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

Supplementary Cancer Protector

The Supplementary Cancer Protector provides defined benefits to help cover non-medical costs associated with cancer. Benefits vary based on the severity of the cancer diagnosis.

Group life insurance

Discovery Group Life offers a comprehensive spectrum of protection benefits on a group basis. Life cover, severe illness, disability and income continuation benefits are offered.

3. Discovery Invest

Investments and savings

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

4. Discovery Vitality

Wellness

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

5. Discovery Insure

Short-term insurance

Discovery Insure provides motor vehicle, household and other short-term risk insurance products to the South African market.

6. PruHealth

Health insurance

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

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

7. PruProtect

Individual life insurance

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

8. The Vitality Group

Wellness

The Vitality Group offers the Vitality programme in the USA on a stand-alone basis by wrapping it around other health plans and employer groups.

9. Ping An Health

Health insurance

Ping An Health offers policyholders in China, cover for a range of private healthcare-related claims.

Summary of significant accounting policies

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

1. Basis of presentation

Discovery's consolidated and company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as well as the South African Companies Act 71 of 2008. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Discovery's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 3.

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

Amendments and interpretations to published standards effective for Discovery's 2011 financial year

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

Standard/interpretation	Scope	Effective date
IFRS 2 (Amendment): Share-based payments	The amendment clarifies the accounting for group cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment and that business combinations are outside the scope of IFRS 2.	Annual periods beginning on or after 1 January 2010
IAS 38 (Amendment): Intangible assets	This amendment clarifies the valuation techniques that may be used when measuring the fair value of intangible assets acquired in a business combination where there is no active market.	Annual periods beginning on or after 1 January 2010

Discovery already complies with the amendment to IFRS 2, which was previously contained in IFRIC 8 and IFRIC 11 (now withdrawn). In respect of the IAS 38 amendment, Discovery has applied this amendment in accounting for its business combinations in the current financial year. These amendments have not resulted in changes to the Group's accounting policies and there has not been any material impact on any of the financial statement line items or earnings per share in 2011.

New or amended standards and interpretations effective for Discovery's 2011 financial year and not significant or applicable to the results of the Group

Discovery has also adopted all other effective new and amended IFRSs (not previously early adopted), as of 1 July 2010. The following new standards, amendments or interpretations are effective for the current financial year, with no material impact on Discovery's accounting policies or results, and no restatement of prior period results.

Standard/interpretation	Scope	Effective date
IFRS 3 (Amendment): Business combination	These amendments include transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS, measurement of non-controlling interests as well as un-replaced and voluntarily share-based payment awards.	Annual periods beginning on or after 1 July 2010
IFRS 5 (Amendment): Non-current assets held for sale and discontinued operations	Disclosure of non-current assets (or disposal groups) classified as held for sale or discontinued operations.	Annual periods beginning on or after 1 January 2010
IFRS 8 (Amendment): Operating segments	Clarifies the disclosure of information about segment assets.	Annual periods beginning on or after 1 January 2010
IAS 1 (Amendment): Presentation of financial statements	Current/non-current classification of convertible instruments.	Annual periods beginning on or after 1 January 2010
IAS 7 (Amendment): Statement of cash flows	The guidance has been amended to clarify that only expenditure that results in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.	Annual periods beginning on or after 1 January 2010
IAS 17 (Amendment): Leases	This standard generally required a lease of land with an indefinite useful life to be classified as an operating lease, unless title passed at the end of the lease term. This is, however, inconsistent with the general principles of lease classification, so the relevant guidance has been deleted.	Annual periods beginning on or after 1 January 2010
IAS 18 (Amendment): Revenue	Determining whether an entity is acting as a principal or as an agent.	Annual periods beginning on or after 1 January 2010
IAS 27 (Amendment): Consolidated and separate financial statements	Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements.	Annual periods beginning on or after 1 July 2010
IAS 36 (Amendment): Impairment of assets	Unit of accounting for goodwill impairment test.	Annual periods beginning on or after 1 January 2010
IAS 39 (Amendment): Financial instruments: Recognition and measurement	This amendment changes the classification of gains or losses on hedging instruments, includes a scope exemption for business combination contracts and clarifies the treatment of loan prepayment penalties as closely related embedded derivatives.	Annual periods beginning on or after 1 January 2010
IFRIC 9 (Amendment): Reassessment of embedded derivatives	The scope of IFRIC 9 was amended so that certain acquired embedded derivatives remain outside the scope of the standard.	Annual periods beginning on or after 1 January 2010
IFRIC 16 (Amendment): Hedges of a net investment in a foreign operation	Amendment to the restriction on the entity that can hold hedging instruments.	Annual periods beginning on or after 1 January 2010
IFRIC 19 (Amendment): Extinguishing financial liabilities with equity instruments	The IFRIC clarifies the accounting when a liability is extinguished through an entity issuing its own equity instrument to the creditor.	Annual periods beginning on or after 1 July 2010

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

The following new standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2011 or later periods. Discovery has not early adopted them.

Standard/interpretation	Scope	Effective date
IFRS 7 (Amendment): Financial instruments: disclosures	This amendment clarifies the intended interaction between qualitative and quantitative disclosures of the nature and extent of risks arising from financial instruments and removes certain disclosures which were seen to be superfluous or misleading.	Annual periods beginning on or after 1 January 2011
IFRS 7: Financial instruments: disclosures	The amendments improve the disclosure requirements in relation to transferred assets.	Annual periods beginning on or after 1 July 2011
IFRS 9: Financial instruments	This standard introduces new requirements for the classification and measurement of financial assets. All recognised financial assets that are currently within the scope of IAS 39 will be measured at either amortised cost or fair value. Debt instruments that are held within a business model whose objective it is to collect the contractual cash flows, and where those cash flows are solely payments of principal and interest, generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss. A fair value option (provided certain specified conditions are met) is still available as an alternative to amortised cost measurement.	Annual periods beginning on or after 1 January 2013
IAS 24 (Amendment): Related party disclosures	The revised standard clarifies the definition of a related party and requires additional disclosure in respect of commitments between related parties.	Annual periods beginning on or after 1 January 2011
IAS 34 (Amendment): Interim financial reporting	This amendment provides guidance on the disclosure requirements in respect of significant events and transactions.	Annual periods beginning on or after 1 January 2011
IFRIC 13 (Amendment): Customer loyalty programmes	This amendment clarifies the intended meaning of the term fair value in respect of award credits.	Annual periods beginning on or after 1 January 2011

It is not expected that the above amendments will have any material impacts to Discovery's results or disclosures.

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

Standard/interpretation	Scope	Effective date
IFRS 1 (Amendment): First time adoption	Amendments to accounting policy changes, revaluation basis as deemed cost and deemed cost for operations subject to rate regulation.	Annual periods beginning on or after 1 January 2011
IFRS 1 (Amendment): First time adoption	Amendments to hyperinflation and fixed dates.	Annual periods beginning on or after 1 July 2011
IAS 1 (Amendment): Presentation of financial statements	Clarifies presentation in the statement of changes in equity.	Annual periods beginning on or after 1 January 2011
IAS 12 (Amendment): Income taxes	Provides an exemption for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.	Annual periods beginning on or after 1 January 2012
IAS 24 (Amendment): Related party disclosures	Provides certain exemptions for government related entities.	Annual periods beginning on or after 1 January 2011
IFRIC 14 (Amendment): Prepayments of a minimum funding requirement	The amendment removes the unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.	Annual periods beginning on or after 1 January 2011

2. Consolidation

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

2.1 Subsidiaries

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

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

Discovery uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by Discovery. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Discovery recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries, in the separate financial statements of the holding company, are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable cost of investment.

The excess of the consideration transferred, being the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of Discovery's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Gains and losses on disposal of subsidiaries are included in profit or loss as gains and losses resulting from business combinations.

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

2.2 Non-controlling interest

Non-controlling interest can be measured at either:

- the proportionate share in the fair value of the identifiable net assets of the subsidiary at acquisition date; or
- fair value.

This measurement choice is not an accounting policy choice and Discovery will apply this at acquisition date per business combination transaction.

Non-controlling interests are treated as equity participants of the subsidiary company. Therefore, all transactions of Discovery with non-controlling interest in their capacity as owners, where there is no change in control, are treated as transactions within equity. In such transactions the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of Discovery.

2.3 Puttable non-controlling interests

Put options granted to the non-controlling interests of Discovery's subsidiaries entitle the non-controlling interests to sell their interests in the subsidiary to Discovery at contracted dates.

In such case, Discovery has consolidated 100% of the subsidiaries results and has recognised the fair value of the non-controlling interest, being the present value of the estimated future purchase price, as a financial liability in the statement of financial position (Puttable non-controlling interests). In raising this liability, the non-controlling interest is derecognised and the excess is debited to retained earnings in the statement of changes in equity.

Interest is recorded in respect of this liability within finance charges using the effective interest rate method. The estimated future purchase price is reconsidered at each reporting date and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price are recorded in profit or loss.

2.4 Associates

Associates are entities over which Discovery has the ability to exercise significant influence but not control over the financial and operational policies. Significant influence is determined based primarily on percentage voting rights, generally between 20% and 50%, together with other factors such as board participation and participation in the policy-making process.

Investments in associates are accounted for using the equity method of accounting, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. Discovery's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. Discovery assesses at each reporting date whether there is objective evidence that an associate is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

Discovery's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Discovery discontinues equity accounting when the carrying amount of the investment in an associate reaches zero, unless it has incurred obligations, guaranteed obligations or made payments on behalf of the associate.

Discovery resumes equity accounting only after its share of the profits equals the share of losses not recognised. Discovery increases the carrying amount of investments with its share of the associate's income when equity accounting is resumed.

Equity accounting is discontinued from the date that Discovery ceases to have significant influence over the associate. Discovery measures at fair value any investment it has retained in the entity when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence is lost.

After discontinuing equity accounting, Discovery accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate. Discovery also applies the requirements of IAS 39 to determine whether there are any indicators of impairment. If such indicators are found to be present the requirements of IAS 36 are applied in testing the investment for impairment and determining the amount of any additional impairment loss with respect to the net investment in the associate as well as other exposures to the investee.

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

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

2.5 Joint ventures

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

Discovery accounts for interests in jointly controlled entities by proportionate consolidation. In terms of this method Discovery includes its share of a joint venture's individual income, expense, assets and liabilities and cash flows in the relevant components of its financial statements. Discovery's portion of intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by Discovery.

3. Foreign currency translation

3.1 Functional and presentation currency

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

3.2 Transactions and balances

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

3.3 Group companies

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. Property and equipment

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

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

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

Leasehold improvements	Shorter of estimated life or period of lease
Computer equipment and operating systems	3 years
Computer software packages	3 years
Furniture and fittings	6 years
Motor vehicles	4 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed at each reporting period and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

5. Investment property

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

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

Investment property comprises freehold land and buildings held under a finance lease. The initial cost shall be as prescribed for a finance lease as set out in accounting policy 23, i.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability. After recognition the investment property shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

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

Investment property held under finance lease:	
– Buildings and structures	50 years
– Mechanical and electrical components	20 years
– Sundries	20 years

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

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

6. Intangible assets

6.1 Computer software development costs

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

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

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

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

Computer software development costs recognised as assets are amortised over their useful lives, which do not exceed three years. The amortisation is reflected under marketing and administration expenses in profit or loss.

6.2 Deferred acquisition costs – insurance and investment contracts

The accounting policy for deferred acquisition costs relating to insurance and investment contracts is detailed in accounting policy 14. The amortisation of deferred acquisition costs is reflected under acquisition costs in profit or loss.

6.3 Exclusivity rights

In the prior financial year, DTPRS purchased the exclusive right to pursue up to 50% of the pre-August 2008 Road Accident Claims, on behalf of the Discovery Health Medical Scheme. The purchase price of these rights has been disclosed in intangible assets as exclusivity rights.

The asset is amortised to profit or loss on a straight-line basis over its estimated useful life. The useful life and amortisation method is reviewed at the end of each annual reporting period, or more frequently when there is an indication that the intangible asset may be impaired, with the effect of any changes accounted for on a prospective basis.

6.4 Other intangible assets

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

7. Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Discovery's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or group of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

8. Financial assets

Discovery classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- available-for-sale financial assets;
- loans and receivables; and
- derivative financial instruments at fair value through profit or loss or carried as a cash flow hedge.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial assets at initial recognition.

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

8.1 Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

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

8.2 Available-for-sale financial assets

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

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

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

8.3 Loans and receivables

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

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Discovery will not be able to collect all amounts due according to their original terms (see accounting policy 10 for the policy on impairment). Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

8.4 Fair value

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

9. Derivative financial instruments

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

Discovery designates certain derivatives as either:

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

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

9.1 Fair value hedge

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

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

9.2 Cash flow hedge

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

Non-financial asset or liability

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

Financial asset or liability

Amounts accumulated in the statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect the profit or loss. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the statement of comprehensive income when the financial asset or liability is sold or impaired.

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

9.3 Derivatives that do not qualify for hedge accounting

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

10. Impairment of assets

10.1 Financial assets carried at amortised cost

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

Objective evidence includes the following events:

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

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

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

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

10.2 Financial assets carried at fair value

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

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

10.3 Impairment of other non-financial assets

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

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

11. Offsetting financial instruments

Discovery offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

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

12. Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:

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

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

13. Share capital

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

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

14. Insurance and investment contracts

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

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

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

14.1 Insurance contracts

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

Recognition and measurement

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

(i) Individual life insurance

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

For the published accounts, the actuarial value of policyholder liabilities is determined based on a prospective discounted cash flow valuation basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. Best estimate assumptions regarding the future experience of claims experience, premium income, expenses and commission are used. Where the same policy includes both insurance and investment components and where the policy is classified as an insurance policy, the liability for the insurance benefits and investment benefits are separately calculated. (Refer to accounting policy 14.2 for the recognition and measurement of investment benefit liabilities).

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

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

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

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

- All margins are at least equal to the compulsory margins prescribed by regulations.
- For the discount rate and lapse rate margins, the direction of the margins vary based on policy duration to ensure that the margin is in the conservative direction, overall. Both the discount rate and lapse rate margins are initially additions to the best estimate rate but switch to reductions from the best estimate rate at later durations. The point where the margin changes direction is set considering the profitability of the total portfolio and considering broad durational groupings.
- Given the level of uncertainty in the best estimate assumptions for lapse, mortality and morbidity margins are added to protect against future possible adverse experience.
- Additional margins are added to allow for the release of profit over the term of the policy.
- Margins are released over the term of a policy in line with the risk borne.
- The best estimate and margins are reset at every valuation date to reflect the underlying profitability of the portfolio.
- Assets under insurance contracts are not used to offset the liability under the pure investment benefits of the policy.

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

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

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

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

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

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

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

(ii) Group life insurance

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

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

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

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

(iii) Health insurance
These contracts insure policyholders against healthcare-related claims.

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

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

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

(iv) Short-term insurance
These contracts insure policyholders against a comprehensive spectrum of short-term risks including, but not limited to, motor vehicle and household cover.

Short-term insurance premiums received in respect of monthly contracts are recognised as revenue when due. Premiums are shown before the deduction of commission, less the fuel cash back rewards described below, and exclude valued-added tax.

Reinsurance commission income is recognised in profit or loss over the period of the related direct insurance business assumed.

Claims are accounted for as incurred and consist of claims paid, movement in the provision for outstanding claims and related claims handling expenses.

The provision for outstanding claims is based on estimates of the cost of settling all claims incurred but unpaid at the reporting date, whether reported or not. Related anticipated reinsurance recoveries are disclosed separately as assets.

Certain short-term insurance contracts allow Discovery to sell property acquired as a result of a claim (i.e. salvage). Discovery may also have the legal right to pursue third parties for payment of some or all of the costs (i.e. subrogation).

The estimated salvage and subrogation reimbursements are treated as a reduction in the measurement of claims liability.

Acquisition costs for these contracts comprise all direct costs arising from the sale of insurance contracts and are recognised in profit or loss over the life of the contract.

As part of the short-term insurance policy, each policyholder will be entitled to receive fuel cash back rewards based on the amount of fuel purchased from specified filing stations nationwide (the fuel cash back). The fuel cash back can be used to either reduce the premium that the policyholder is required to pay for the month in question or alternatively, at the election of the policyholder, defer their fuel cash back into an excess funder account (EFA).

Where the policyholder has used the fuel cash back to reduce the monthly premium, the reduction has been shown in insurance premium revenue in profit or loss as incurred.

Where the policyholder has elected to defer their fuel cash back into an EFA,

- the fuel cash back benefit is doubled when placed into the EFA;
- the funds in the EFA can be used to pay the excess liability a member incurs as a result of a valid claim for any motor vehicle insured under the policy;
- if the policy lapses, the member forfeits the amount deferred in the EFA; and
- after three years, the EFA can be withdrawn; however the withdrawal is limited to the fuel cash back originally deferred and is not adjusted for the time-value of money.

The EFA liability is calculated using Stochastic Modelling and is disclosed in liabilities arising from insurance contracts in the statement of financial position and the movement is disclosed in the transfer to liabilities under insurance contracts.

Embedded derivatives

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

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

Liability adequacy test

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

Reinsurance contracts

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

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

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

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

Outward reinsurance premiums are recognised as an expense and are accounted in the same accounting period that premiums received are recognised in revenue.

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

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

Deferred acquisition costs (DAC)

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

Receivables and payables related to insurance and investment contracts

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

14.2 Investment contracts

Recognition and measurement

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

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) and are designated at inception as at fair value through profit or loss. Discovery designates these investment contracts to be measured at fair value through profit or loss because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. See accounting policy 8.1 for the financial assets backing these liabilities.

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

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

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

Deferred acquisition costs (DAC)

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

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

Fees on investment contracts

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

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

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

15. Borrowings

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

16. Deferred income tax

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Discovery separately discloses the deferred tax asset and deferred tax liability.

17. Deferred revenue

17.1 Gym activation fees

Gym activation fees received in respect of annual contracts are recognised proportionally over the period of the contract. The deferred revenue is amortised on a straight-line basis.

17.2 Miles benefit

Discovery operates a loyalty scheme through DiscoveryCard which allows customers to accumulate miles that entitle them, subject to certain criteria, to use their miles against purchases with Discovery Vitality Partners. Income, which is equal to the fair value attributed to the miles awarded, is deferred as a liability in deferred revenue and is recognised as revenue when the miles are redeemed or if they expire.

The fair value of the Discovery Miles is estimated by applying a weighted average cost per mile based on estimated redemption percentages.

18. Employee benefits

18.1 Post-employment benefits

Discovery operates defined contribution schemes, the assets of which are held in separate trustee-administered funds.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery employees. Qualified actuaries perform annual valuations.

For defined contribution plans, Discovery pays contributions to privately administered pension insurance plans on a mandatory basis. Discovery has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

18.2 Post-retirement medical benefits

Discovery has no liability for the post-retirement medical benefits of employees.

18.3 Share-based compensation

Discovery operates equity-settled and cash-settled share-based compensation plans.

Equity-settled share-based compensation plans

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit or loss immediately.

Cash-settled share-based compensation plans

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is remeasured at each reporting period to its fair value, with all changes recognised immediately in profit or loss.

18.4 Termination benefits

Discovery recognises termination benefits as a liability in the statement of financial position and as an expense in profit or loss when it has a present obligation relating to termination. Discovery has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer to encourage voluntary redundancy.

18.5 Leave pay

Discovery accrues in full the employees' rights to annual leave entitlement in respect of past service. This is expensed over the period the services are rendered.

18.6 Profit share and bonus plan

Discovery recognises a liability and an expense for bonuses and profit-sharing in staff costs, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

19. Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less from the reporting date. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

20. Provisions

Provisions are recognised when, as a result of past events, Discovery has a present legal or constructive obligation of uncertain timing or amount, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date. The pre-tax discount rate used to determine the present value reflects current market assessments of the time value of money. The increase in the provision due to the passage of time is recognised as interest expense.

Discovery recognises a provision for an onerous contract when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

21. Contingent liabilities

Discovery discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it has a present obligation that arises from past events but not recognised because
  - it is not probable that an outflow of resources will be required to settle an obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

22. Revenue recognition

22.1 Insurance premium revenue

Insurance premium revenue includes individual life insurance premiums, group life insurance premiums, health insurance premiums and short-term insurance premiums. These are accounted for as described in accounting policy 14.

22.2 Fee income on administration business

Administration fees, managed care fees and rental income from investment properties are included in fee income.

Administration fees and managed care fees are accounted for on an accrual basis when the services are rendered. Rental income from investment properties is recognised in profit or loss on a straight-line basis over the term of each lease.

22.3 Vitality income

Vitality income is accounted for on an accrual basis as the services are rendered and includes:

- Vitality contributions received from its members;
- revenue income from the sale of benefits offered by Vitality; and
- fee income received from the activation of new gym contracts.

22.4 Investment income

Investment income comprises interest and dividends received on available-for-sale investments, assets held at amortised cost and cash and cash equivalents.

Discovery recognises dividends when Discovery's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest is accounted for on an accrual basis using the effective interest rate method.

22.5 Net realised gains on available-for-sale financial assets

Net realised gains comprise realised gains and losses on available-for-sale financial instruments. The accumulated fair value gains and losses recognised in the statement of comprehensive income are accounted for on disposal of the investment in profit or loss as net realised gains and losses.

22.6 Net fair value gains on financial assets at fair value through profit or loss

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial instruments held at fair value through profit or loss.

23. Leases

23.1 Finance leases

Discovery classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in profit or loss over the lease period. The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

23.2 Operating leases

Discovery classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in profit or loss on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

24. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure, all other non-commission related expenditure and benefits paid under the Vitality programme. These costs are expensed in profit or loss as incurred.

25. Finance costs

Borrowing costs are recognised as an expense in profit or loss on an accrual basis.

26. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as secondary tax on companies and capital gains tax. Direct taxes are disclosed as taxation in profit or loss.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and skills development levies. Indirect taxes are included as part of marketing and administration expenses in profit or loss.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Discovery entities operate.

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life insurance companies.

27. Dividend distribution

Dividend distribution to Discovery Holdings Limited's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

28. Segment reporting

Discovery's operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers (CODM). The CODM have been identified as the Chief Executive Officers of Discovery's businesses, who make strategic decisions regarding these businesses.

The Group has identified its reportable segments based on a combination of products and services offered to customers and the location of the markets served.

The following summary describes the operations of each of the Group's reportable segments:

(i) **Health South Africa**: administers and provides managed care services to medical schemes and renders administration services to other business segments within the Group.

(ii) **Life South Africa**: offers a range of insurance and financial solutions to the Group's clients against the financial impact of lifestyle-changing events. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in South Africa.

(iii) **Invest South Africa**: offers, through a range of investment fund choices, including Discovery managed unit trusts, a comprehensive and flexible range of investment choices. These products are sold through a number of investment wrappers including Discovery Life policies and are offered to individuals in South Africa.

(iv) **Vitality South Africa**: offers health and lifestyle benefits with selected partners to the Group's clients. This segment includes the DiscoveryCard which is offered to clients within South Africa.

(v) **Health United Kingdom**: offers consumer-engaged private medical insurance products to employer groups and individuals in the United Kingdom, together with Prudential Assurance Company Limited. All contracts in this segment are short-term insurance contracts.

(vi) **Life United Kingdom**: offers a risk-only life assurance product. All contracts in this segment are long-term assurance contracts offered to both employer groups and individuals in the United Kingdom, together with Prudential Assurance Company Limited.

(vii) **Health United States of America**: offers consumer driven health insurance products to employer groups and individuals in the United States of America. Since early 2008, Destiny Health has been winding down its health insurance exposure.

(viii) **New business development**: includes expenses incurred to investigate new products and markets as well as start-up businesses and acquisitions including but not limited to The Vitality Group in the United States of America, Standard Life Healthcare in the United Kingdom (disclosed in Health United Kingdom from 1 August 2010), Ping An Health in China and Discovery Insure in South Africa.

(ix) **All other segments**: includes those segments that do not meet the quantitative thresholds set out in IFRS 8 and cannot be aggregated with another reportable segment. It includes the revenue and expenses of Discovery's investment property, gains and losses resulting from business combinations as well as costs incurred by Discovery Holdings Limited and Discovery Offshore Holdings Limited.

Performance is measured based on segment profit before tax. The Group's segments, report their profit or loss and their assets and liabilities based on the Group's accounting policies. Internal charges and transfer pricing adjustments are reflected in the performance of each business.

Statement of financial position

At 30 June 2011

R million	Notes	Group 2011	Group 2010
ASSETS			
Assets arising from insurance contracts	4	**9 044**	7 076
Property and equipment	5	**200**	220
Investment property	6	**–**	19
Intangible assets including deferred acquisition costs	7	**1 440**	325
Goodwill	8	**1 302**	–
Investment in associates	9	**260**	–
Financial assets			
– Equity securities	10	**3 467**	2 892
– Equity linked notes	10	**4 742**	2 861
– Debt securities	10	**1 535**	714
– Inflation linked securities	10	**159**	68
– Money market	10	**2 680**	1 453
– Derivatives	11	**46**	111
– Loans and receivables including insurance receivables	12	**2 269**	1 885
Deferred income tax	21	**296**	303
Current income tax asset		**–**	101
Reinsurance contracts	13	**180**	121
Cash and cash equivalents	14	**3 285**	2 845
Total assets		**30 905**	20 994
EQUITY			
Capital and reserves			
Share capital and share premium	15	**1 542**	1 541
Other reserves		**278**	574
Retained earnings		**7 149**	6 267
		8 969	8 382
Non-controlling interest		**4**	–
Total equity		**8 973**	8 382
LIABILITIES			
Liabilities arising from insurance contracts	16	**10 621**	6 198
Liabilities arising from reinsurance contracts	17	**1 308**	1 160
Financial liabilities			
– Investment contracts at fair value through profit or loss	18	**2 063**	1 544
– Borrowings at amortised cost	19	**402**	23
– Derivatives	11	**22**	12
– Puttable non-controlling interests	20	**2 314**	–
Deferred income tax	21	**2 584**	1 849
Deferred revenue	22	**130**	75
Employee benefits	23	**97**	70
Trade and other payables	24	**2 391**	1 681
Total liabilities		**21 932**	12 612
Total equity and liabilities		**30 905**	20 994

Income statement

For the year ended 30 June 2011

R million	Notes	Group 2011	Group 2010
Insurance premium revenue		**12 486**	7 860
Premium revenue from investment contracts transferred to insurance contracts		**–**	1 865
Reinsurance premiums		**(1 700)**	(1 172)
Net insurance premium revenue	26	**10 786**	8 553
Fee income from administration business		**3 888**	3 380
Investment income	27	**205**	239
Net realised gains on available-for-sale financial assets	28	**202**	200
Net fair value gains on financial assets at fair value through profit or loss	29	**661**	276
Vitality income		**1 480**	1 182
Net income		**17 222**	13 830
Claims and policyholders' benefits		**(5 573)**	(2 586)
Insurance claims recovered from reinsurers		**1 246**	841
Recapture of reinsurance		**(313)**	–
Net claims and policyholders' benefits	30	**(4 640)**	(1 745)
Acquisition costs	31	**(2 116)**	(1 961)
Marketing and administration expenses	32,33	**(6 012)**	(4 807)
BEE expenses		**–**	(6)
Amortisation of intangibles from business combinations	7,8	**(97)**	–
Recovery of expenses from reinsurers		**139**	95
Transfer from assets/liabilities under insurance contracts		**(1 530)**	(2 717)
– change in assets arising from insurance contracts		**1 760**	1 639
– change in liabilities arising from insurance contracts		**(3 184)**	(4 291)
– change in liabilities arising from reinsurance contracts		**(106)**	(65)
Fair value adjustment to liabilities under investment contracts	18	**(52)**	(175)
Profit from operations		**2 914**	2 514
Gains and losses resulting from business combinations	8	**609**	–
Write-off of software from business combination	8	**(95)**	–
Realised gains on disposal of intellectual property	9	**87**	–
Realised gains on disposal of investment property	6	**122**	–
Finance costs	34	**(168)**	(14)
Foreign exchange loss	35	**(14)**	(3)
Share of loss from associate	9	**(4)**	–
Profit before tax		**3 451**	2 497
Income tax expense	36	**(872)**	(782)
Profit for the year		**2 579**	1 715
Profit attributable to:			
– equity holders		**2 577**	1 717
– non-controlling interest		**2**	(2)
		2 579	1 715
Earnings per share for profit attributable to the equity holders of the Company during the year (cents):	37		
– basic		**464.4**	309.9
– diluted		**464.2**	308.7

Statement of comprehensive income

For the year ended 30 June 2011

R million	Group 2011	Group 2010
Profit for the year	**2 579**	1 715
Other comprehensive income:		
Change in available-for-sale financial assets	**(122)**	33
– unrealised gains/(losses)	**61**	238
– capital gains tax on unrealised gains/losses	**(9)**	(33)
– realised gains transferred to profit or loss	**(202)**	(200)
– capital gains tax on realised gains	**28**	28
Currency translation differences	**(146)**	(20)
– decrease in currency translation reserve	**(127)**	(20)
– transfer to profit or loss on disposal of joint venture	**(19)**	–
Cash flow hedges	**(30)**	12
– unrealised gains/(losses)	**(31)**	22
– tax on unrealised gains/losses	**8**	(12)
– realised (gains)/losses transferred to profit or loss	**(10)**	2
– tax on realised gains/losses	**3**	*
Other comprehensive income for the year, net of tax	**(298)**	25
Total comprehensive income for the year	**2 281**	1 740
Attributable to:		
– equity holders	**2 279**	1 742
– non-controlling interest	**2**	(2)
Total comprehensive income for the year	**2 281**	1 740

** Amount is less than R500 000*

Statement of cash flows

For the year ended 30 June 2011

R million	Notes	Group 2011	Group 2010
Cash flow from operating activities		**(6)**	1 630
Cash generated by operations	38.1	**4 216**	4 802
Policyholder net investments		**(3 930)**	(2 988)
		286	1 814
Dividends received		**83**	31
Interest received		**122**	226
Interest paid		**(62)**	(14)
Taxation paid	38.2	**(435)**	(427)
Cash flow from investing activities		**313**	(105)
Net disposals of financial assets		**1 369**	112
Disposal of investment property		**140**	–
Net purchases of equipment		**(40)**	(127)
Net purchase of intangible assets		**(84)**	(90)
Purchase of subsidiary		**(1 072)**	–
Cash flow from financing activities		**198**	(396)
Proceeds from issuance of ordinary shares	38.3	**282**	2
Dividends paid to equity holders		**(461)**	(389)
Repayment of borrowings	38.4	**(23)**	(9)
Increase in borrowings	38.5	**400**	–
Net increase in cash and cash equivalents		**505**	1 129
Cash and cash equivalents at beginning of year		**2 845**	1 737
Exchange losses on cash and cash equivalents		**(65)**	(21)
Cash and cash equivalents at end of year	14	**3 285**	2 845

Statement of changes in equity

For the year ended 30 June 2011

	Attributable to equity holders of the Company	
R million	Share capital and share premium	Share-based payment reserve
Year ended 30 June 2010		
At beginning of year	1 548	307
Profit for the year	–	–
Other comprehensive income	–	–
Total comprehensive income for the year	–	–
Transactions with owners:		
Increase in treasury shares	(13)	–
Non-controlling interest share issues	–	–
Realised gains from treasury shares	6	–
Employee share option schemes:		
– Value of employee services	–	9
Dividends paid to equity holders	–	–
Total transactions with owners	(7)	9
At end of year	1 541	316
Year ended 30 June 2011		
At beginning of year	**1 541**	**316**
Profit for the year	–	–
Other comprehensive income	–	–
Total comprehensive income for the year	–	–
Transactions with owners:		
Increase in treasury shares	**(16)**	–
Realised gains from treasury shares	**17**	–
Non-controlling interest share issues	–	–
Non-controlling interest share buy-backs	–	–
Fair value adjustment of non-controlling interest's share of subsidiary	–	–
Transfer to puttable non-controlling interests liability	–	–
Employee share option schemes:		
– Value of employee services	–	**2**
Dividends paid to equity holders	–	–
Total transactions with owners	**1**	**2**
At end of year	**1 542**	**318**

** This reserve relates to the revaluation of available-for-sale financial assets.*

Of the R7 149 million (2010: R6 267 million) held in retained earnings, R2 586 million (2010: R2 070 million) is distributable. The balance is held to meet the capital requirements in various Group companies.

Attributable to equity holders of the Company						
Revaluation reserve*	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
112	96	25	4 925	7 013	–	7 013
–	–	–	1 717	1 717	(2)	1 715
33	(20)	12	–	25	–	25
33	(20)	12	1 717	1 742	(2)	1 740
–	–	–	–	(13)	–	(13)
–	–	–	–	–	2	2
–	–	–	–	6	–	6
–	–	–	–	9	–	9
–	–	–	(375)	(375)	–	(375)
–	–	–	(375)	(373)	2	(371)
145	76	37	6 267	8 382	–	8 382
145	**76**	**37**	**6 267**	**8 382**	**–**	**8 382**
–	**–**	**–**	**2 577**	**2 577**	**2**	**2 579**
(122)	**(146)**	**(30)**	**–**	**(298)**	**–**	**(298)**
(122)	**(146)**	**(30)**	**2 577**	**2 279**	**2**	**2 281**
–	**–**	**–**	**–**	**(16)**	**–**	**(16)**
–	**–**	**–**	**–**	**17**	**–**	**17**
–	**–**	**–**	**–**	**–**	**1 070**	**1 070**
–	**–**	**–**	**–**	**–**	**(2)**	**(2)**
–	**–**	**–**	**51**	**51**	**(51)**	**–**
–	**–**	**–**	**(1 301)**	**(1 301)**	**(1 015)**	**(2 316)**
–	**–**	**–**	**–**	**2**	**–**	**2**
–	**–**	**–**	**(445)**	**(445)**	**–**	**(445)**
–	**–**	**–**	**(1 695)**	**(1 692)**	**2**	**(1 690)**
23	**(70)**	**7**	**7 149**	**8 969**	**4**	**8 973**

1. Segment information

R million	SA Health	SA Life	SA Invest
30 June 2011			
Income statement			
Insurance premium revenue	21	5 142	3 295
Reinsurance premiums	(3)	(1 007)	–
Net insurance premium revenue	18	4 135	3 295
Fee income from administration business	3 479	78	242
Investment income	22	135	7
Inter-segment funding	–	(216)	216
Net realised gains on available-for-sale financial assets	–	202	–
Net fair value gains on financial assets at fair value through profit or loss	–	239	422
Vitality income	–	–	–
Net income	3 519	4 573	4 182
Claims and policyholders' benefits	(6)	(2 322)	(501)
Insurance claims recovered from reinsurers	1	695	–
Net claims and policyholders' benefits	(5)	(1 627)	(501)
Acquisition costs	–	(1 265)	(281)
Marketing and administration expenses			
– depreciation and amortisation	(134)	(32)	–
– other expenses	(2 001)	(955)	(205)
Recovery of expenses from reinsurers	–	–	–
Transfer from assets/liabilities under insurance contracts			
– change in assets arising from insurance contracts	–	1 351	–
– change in liabilities arising from insurance contracts	–	(99)	(3 067)
– change in liabilities arising from reinsurance contracts	–	(77)	–
Fair value adjustment to liabilities under investment contracts	–	(32)	(20)
Profit/(loss) from operations	1 379	1 837	108
Recapture of reinsurance	–	–	–
Gains and losses resulting from business combinations	–	–	–
DAC expense reversed due to business combination	–	–	–
Amortisation of intangibles from business combinations	–	–	–
Write-off of software from business combination	–	–	–
Realised gains from the disposal of intellectual property	–	–	–
Realised gains from the disposal of investment property	–	–	–
Finance costs	–	–	–
Foreign exchange loss	(9)	(4)	(3)
Share of loss from associate	–	–	–
Profit before tax	1 370	1 833	105
Income tax expense	(381)	(478)	(29)
Profit for the year	989	1 355	76
Attributable to:			
– equity holders	989	1 355	76
– non-controlling interest	–	–	–
	989	1 355	76

** All other segments include the impact from business combinations*

SA Vitality	UK Health	UK Life	USA Health	New business development	All other segments*	Total
–	3 738	290	–	–	–	12 486
–	(609)	(81)	–	–	–	(1 700)
–	3 129	209	–	–	–	10 786
–	17	60	–	1	11	3 888
7	12	4	–	2	16	205
–	–	–	–	–	–	–
–	–	–	–	–	–	202
–	–	–	–	–	–	661
1 367	71	–	–	42	–	1 480
1 374	3 229	273	–	45	27	17 222
–	(2 659)	(86)	1	–	–	(5 573)
–	500	50	–	–	–	1 246
–	(2 159)	(36)	1	–	–	(4 327)
(57)	(254)	(396)	–	–	–	(2 253)
–	(5)	–	(5)	–	–	(176)
(1 292)	(842)	(285)	–	(228)	(28)	(5 836)
–	139	–	–	–	–	139
–	–	409	–	–	–	1 760
–	(18)	–	–	–	–	(3 184)
–	(17)	(12)	–	–	–	(106)
–	–	–	–	–	–	(52)
25	73	(47)	(4)	(183)	(1)	3 187
–	–	–	–	–	(313)	(313)
–	–	–	–	–	609	609
–	–	–	–	–	137	137
–	–	–	–	–	(97)	(97)
–	–	–	–	–	(95)	(95)
–	–	–	–	–	87	87
–	–	–	–	–	122	122
–	–	(35)	–	–	(133)	(168)
–	–	–	–	–	2	(14)
–	–	–	–	(4)	–	(4)
25	73	(82)	(4)	(187)	318	3 451
(4)	7	55	–	(29)	(13)	(872)
21	80	(27)	(4)	(216)	305	2 579
21	80	(27)	(4)	(218)	305	2 577
–	–	–	–	2	–	2
21	80	(27)	(4)	(216)	305	2 579

1. Segment information CONTINUED

R million	SA Health	SA Life	SA Invest
30 June 2010			
Income statement			
Insurance premium revenue	29	4 310	2 848
Premium revenue for investment contracts transferred to insurance contracts	–	–	1 865
Reinsurance premiums	(2)	(870)	–
Net insurance premium revenue	27	3 440	4 713
Fee income from administration business	3 114	95	104
Investment income	26	153	19
Inter-segment funding	–	(97)	97
Net realised gains on available-for-sale financial assets	–	200	–
Net fair value gains on financial assets at fair value through profit or loss	–	67	209
Vitality income	–	–	–
Net income	3 167	3 858	5 142
Claims and policyholders' benefits	(14)	(1 816)	(200)
Insurance claims recovered from reinsurers	1	562	–
Net claims and policyholders' benefits	(13)	(1 254)	(200)
Acquisition costs	–	(1 201)	(449)
Marketing and administration expenses			
– depreciation and amortisation	(159)	(11)	(15)
– other expenses	(1 769)	(1 015)	(137)
BEE expenses	(5)	(1)	–
Recovery of expenses from reinsurers	–	–	–
Transfer from assets/liabilities under insurance contracts			
– change in assets arising from insurance contracts	–	1 479	(2)
– change in liabilities arising from insurance contracts	–	(131)	(4 162)
– change in liabilities arising from reinsurance contracts	–	(78)	–
Fair value adjustment to liabilities under investment contracts	–	(5)	(170)
Profit/(loss) from operations	1 221	1 641	7
Finance costs	(1)	–	–
Foreign exchange loss	(1)	(2)	–
Profit before tax	1 219	1 639	7
Income tax expense	(343)	(416)	(2)
Profit for the year	876	1 223	5
Attributable to:			
– equity holders	876	1 223	5
– non-controlling interest	–	–	–
	876	1 223	5

SA Vitality	UK Health	UK Life	USA Health	New business development	All other segments*	Total
–	587	85	1	–	–	7 860
–	–	–	–	–	–	1 865
–	(276)	(24)	–	–	–	(1 172)
–	311	61	1	–	–	8 553
44	2	8	–	–	13	3 380
16	–	1	–	–	24	239
–	–	–	–	–	–	–
–	–	–	–	–	–	200
–	–	–	–	–	–	276
1 102	50	–	–	30	–	1 182
1 162	363	70	1	30	37	13 830
–	(513)	(9)	(34)	–	–	(2 586)
–	270	7	1	–	–	841
–	(243)	(2)	(33)	–	–	(1 745)
(64)	(53)	(169)	–	(25)	–	(1 961)
–	(1)	–	(4)	–	–	(190)
(1 072)	(277)	(114)	(25)	(180)	(28)	(4 617)
–	–	–	–	–	–	(6)
–	95	–	–	–	–	95
–	–	162	–	–	–	1 639
–	(32)	–	34	–	–	(4 291)
–	–	13	–	–	–	(65)
–	–	–	–	–	–	(175)
26	(148)	(40)	(27)	(175)	9	2 514
–	(5)	–	(1)	–	(7)	(14)
–	–	–	–	–	–	(3)
26	(153)	(40)	(28)	(175)	2	2 497
(6)	10	11	–	8	(44)	(782)
20	(143)	(29)	(28)	(167)	(42)	1 715
20	(143)	(29)	(26)	(167)	(42)	1 717
–	–	–	(2)	–	–	(2)
20	(143)	(29)	(28)	(167)	(42)	1 715

2. Management of insurance and financial risk

Discovery enters into contracts that carry insurance risk or financial risk or both. The following table analyses the various contracts offered by the Group and the risks these contracts transfer.

Contracts offered by the Group	Contract type	Insurance risk	Financial risk
Discovery Life			
– Discovery Life Plan	Insurance	✓	
– Health Plan Protector	Insurance	✓	
– Discovery Retirement Optimiser: Linked	Unit-linked insurance	✓	✓
– Discovery Retirement Optimiser: Guaranteed	Insurance	✓	
– DiscoveryCard Protector	Insurance	✓	
– Global Education Protector	Insurance	✓	
– Supplementary Cancer Protector	Insurance	✓	
– Group Life	Insurance	✓	
– Destiny Provident Fund	Unit-linked investment		✓
– Destiny Benefit Fund	Unit-linked investment		✓
Discovery Invest			
– Unit-linked contracts without significant insurance risk	Unit-linked investment		✓
– Unit-linked contracts with significant insurance risk	Unit-linked insurance	✓	✓
– Guaranteed return plans	Insurance	✓	✓
– Fixed annuities	Insurance	✓	✓
Discovery Insure			
– Short-term insurance	Insurance	✓	
PruHealth			
– Individual product	Insurance	✓	
– SME product	Insurance	✓	
– Corporate product	Insurance	✓	
PruProtect			
– PruProtect Life Plan	Insurance	✓	

The Group's insurance risks and financial risks are discussed in detail below.

2.1 Insurance risks

The insurance risk under any one insurance contract is the possibility of a claim arising from that contract and the uncertainty of the amount of the resulting claim. This risk is random and therefore unpredictable.

A large portfolio of independent but similar insurance contracts, allow for the use of probability theory to predict the number and value of claims over a defined period. Insurance risk, when considering a large portfolio of insurance contracts, is thus the probability that the actual amount of claims over a defined period is different to expected. This could in turn result in the value of insurance liabilities being over or under estimated.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. Discovery reduces claims variability by underwriting policies and by using reinsurance to protect against single large claims.

Discovery assumes the following risks transferred from insurance contracts:

- automatic increase take-up rate;
- capital adequacy requirements and protection against adverse experience;
- concentration risk;
- currency risk;
- expense risk;
- lapse and surrender risk;
- liquidity risk;
- market and mismatching risk;
- modelling and data risk;
- operational/implementation risk;
- policy wording/legal risks;
- regulatory risk;
- reputational risk;
- tax risk; and
- underwriting experience risk.

The following section will briefly describe the various contracts offered by the subsidiaries within the Group, the insurance risks associated with those products and the way the Group manages these risks.

2.1.1 Discovery Life and Discovery Invest

Product descriptions

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

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

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. Discovery Life offers a Classic Life Plan with broad and comprehensive protection for the policyholder and his or her immediate family and an Essential Life Plan which offers cost effective protection for the principal policyholder and his or her spouse.

The Discovery Life Plan covers:

- Life Cover Benefits;
- Disability Benefits;
- Severe Illness Benefits; and
- Income Continuation Benefits.

The Life Fund forms the financial foundation of the Life Plan. The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary. The Life Fund can also be linked to global investment markets and a selection of currencies via the Global Linkage Benefit to provide additional protection in real terms and in foreign currencies. The Cover Integrator allows for an increase in the Life Fund at a significantly reduced premium and further rewards policyholders for managing their health by engaging in Vitality. The Financial Integrator increases the Life Fund and offers protection against adverse financial events such as asset price depreciation, increases in interest rates, rand depreciation and high severe illness claims. The Financial Integrator fluctuates on an annual basis to offer protection against the adverse financial events.

The key risk benefits are then defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in form of indemnity benefits, rather than being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation Benefit;
- Global Education Benefit; and
- Global Health Protector.

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education Protector, Global Health Protector, Childbirth Benefit, Child Severe Illness Benefit, Parent Severe Illness Benefit and Family Trauma Benefit allow protection for the whole immediate family.

By actively maintaining and improving their health Discovery Life policyholders, through the Integrator Benefit, could receive premium discounts and refunds of premiums.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most Benefits. For example, the premiums for Life Cover are guaranteed not to increase by more than 25% for any 10 year period.

Premiums are payable monthly. There are four funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns, annually increasing premium patterns and ten-yearly stepped premium funding patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

At 30 June 2011 there were 262 255 Life Plans with an annualised premium income of R4 026 million (2010: 243 100 Life Plans with an annualised premium income of R3 465 million). The annualised premium income is calculated by multiplying the monthly in-force premium at 30 June by 12 months.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit and Health Dividends. The Health Plan Protector can be added to the Life Plan or can be bought on a stand-alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

2. Management of insurance and financial risk CONTINUED

2.1.1 Discovery Life and Discovery Invest CONTINUED

At 30 June 2011 there were 60 514 Health Plan Protector policies with an annualised premium income of R214 million (2010: 69 100 Health Plan Protector policies with an annualised premium income of R225 million).

Discovery Retirement Optimiser

The Retirement Optimiser offers funding for retirement and offers unique benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms.

As at 30 June 2011 there were 47 480 Discovery Retirement Optimiser policies of which 45 564 policies are linked to the Life Plan. These policies have an annualised premium income of R738 million (At 30 June 2010 there were 42 000 Discovery Retirement Optimiser policies, 41 000 of these policies were linked to the Life Plan, with an annualised premium income of R627 million).

DiscoveryCard Protector

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

At 30 June 2011 there were 15 262 DiscoveryCard Protector policies with an annualised premium income of R14 million (2010: 16 900 policies with an annualised premium income of R14 million).

Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a stand-alone basis.

At 30 June 2011 there were 3 182 stand-alone Global Education Protector policies with an annualised premium income of R8 million (2010: 3 900 stand-alone Global Education Protector policies with an annualised premium income of R9 million).

Supplementary Cancer Protector

The Supplementary Cancer Protector benefit will pay defined monthly amounts which can be used to meet costs that arise when a family is affected by cancer.

At 30 June 2011 there were 3 268 Supplementary Cancer Protector policies with an annualised premium income of R6 million.

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2011 there were 309 499 lives covered under group policies with an annualised premium income of R698 million (2010: 211 000 lives covered under group policies with an annualised premium income of R505 million).

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of every investor.

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows policyholders to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- **Endowment:** A medium term investment vehicle that provides tax efficiencies for an investor with a five to ten year time horizon.
- **Flexible investment:** A flexible investment vehicle that allows tailor made investments solutions whilst providing immediate access to funds.
- **Retirement plan:** A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- **Preserver plans:** An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- **Retirement income plan:** Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest Funds. The funds include:

- **Discovery Invest funds:** Includes a comprehensive range of Discovery Invest's single and multi-manager funds across a range of asset classes.
- **Dynamically protected funds:** Unique Discovery Invest funds that are designed to protect investors against the major risks associated with investment choice, for example, underperformance by fund, asset class and geographic region.
- **Special purpose funds:** These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- **External funds:** Discovery Invest provides a broad range of externally managed funds.

Integrating Invest and Discovery Life products reduces the cost of investment and enhances benefits available under the Invest plans.

- **Investment Integrator**: Uses inter alia the health improvements from Vitality and tax efficiencies created to offer a cost effective endowment and increase the value of the investment. A fee reduction of up to 100% can be achieved on both administration and asset management fees.
- **Annuity Integrator**: By releasing the value of a policyholder's life cover at retirement, the Annuity Integrator creates enhanced benefits for Discovery Retirement Income Plan investors. The benefits include increased retirement income, protection against longevity, protection against ill-health and protection against poor performance of underlying assets.
- **Guaranteed return plans**: Guaranteed return plans include the following:
  – The Guaranteed Growth Plan is a single premium endowment that provides a guaranteed return at the end of five years.
  – The Guaranteed Income Plan provides guaranteed return at the end of five years on the chosen percentage of the lump sum contribution. The remainder of the lump sum will provide a monthly or annual income.
- **Upfront Investment Integrator**: Provide an upfront boost to the investment values provided on the endowment plan.
- **Life Booster**: Provide a boost to the investment fund value on death of between 5% and 15% depending on the member's Vitality status.

At 30 June 2011 there were 48 723 Invest plans with an annualised premium equivalent of R1 854 million (2010: 30 500 Invest plans with an annualised premium equivalent of R1 236 million). The annualised premium equivalent includes single premiums at 10% of the single premium.

Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined on page 189 in note 2.2.

For Discovery Life, the insurance related cash outflows (eg. benefit payments, administrations expenses, etc.) are covered by expected future cash inflows (predominantly future premiums). This can clearly be seen by considering the future net cash flows arising from insurance contracts. These cash flows are calculated in accordance with the accounting policies. Premium and benefit increases on insurance contracts are recognised in line with the lowest increase option available to the policyholder that will not require any other changes of premiums relative to benefits.

For Discovery Invest, the insurance related cash outflows are matched with a combination of a release of policyholder assets (net of retained fees), investment return on these assets and Discovery Life cash flows.

The expected future cash flows utilised in the calculation of assets under insurance contracts were as follows:

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2011					
Discovery Life	**1 056**	**3 604**	**4 020**	**6 943**	**26 089**
2010					
Discovery Life	938	2 929	3 158	5 592	19 683

For Discovery Life, the value of assets under insurance contracts of R9 231 million (2010: R7 328 million) is calculated by discounting the expected future cash flows shown above. The effect of discounting is R32 465 million (2010: R24 888 million). The discount rate is set with reference to the prevailing risk free gilt yield. The value of assets under insurance contracts is subject to interest rate risk.

2. Management of insurance and financial risk CONTINUED

2.1.1 Discovery Life and Discovery Invest CONTINUED

Reconciliation of the value of assets under insurance contracts included in the cash flows on the previous page to the statement of financial position (note 4):

R million	2011	2010
Assets arising from insurance contracts at end of year	**8 316**	6 544
Adjusted for:		
– Unit-linked policyholder liabilities	**1 653**	963
– Assets arising from insurance contracts relating to PruProtect	**(738)**	(179)
	9 231	7 328

The expected future cash flows in the calculation of liabilities under insurance contracts were as follows:

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2011					
Discovery Invest	**(147)**	**(3 620)**	**372**	**268**	**162**
2010					
Discovery Invest	(68)	(2 732)	230	125	72

For Discovery Invest, the value of the liabilities under insurance contracts of R2 698 million (2010: R1 880 million) is calculated by discounting the expected future cash flows as shown above. The effect of discounting is R266 million (2010: R494 million). (Refer to reconciliation to the statement of financial position on page 183).

There is thus a risk that a change in the risk free SA gilt yield could cause a change in the value of the assets and liabilities under insurance contracts.

The outstanding claims and incurred but not reported claims are mostly short-term in nature and have consequently been matched with cash.

The risk under the Global Linkage Benefit is fully reinsured and Discovery does not face any net direct market risk. In the event of the reinsurer defaulting, the investments held by the reinsurer to hedge their risk relating to the Global Linkage Benefit, will be ceded to Discovery Life. Discovery Life reviews the assets held by the reinsurer on a six monthly basis.

Automatic increase take-up rate

The majority of Discovery Life Plan policyholders have selected policies with automatic premium and benefit increases.

Recurring premium Invest plans have various automatic increase options ranging from 0% up to 20% per annum. A CPI-linked option is also available. The majority of Invest policyholders have selected plans with automatic benefit increases.

The automatic increases increase the profitability of the plans to Discovery over time since the cash flows under the policy are maintained in real terms.

These automatic increases are contractual. However, if a policyholder is no longer in a position to meet the premium increases, they may elect to change their policy to a plan with lower premium and benefit increases. In practice it has been found that most of the policyholders continue with their initial funding plans. However, for valuation purposes it has been assumed that all South African policyholders change to plans with minimum premium increases without changing the cover levels as at the valuation date. This is the worst case scenario and thus acts as a margin.

Lapse and surrender risk

Policyholders have the option to discontinue or reduce contributions at any time.

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped. On Invest plans, the surrender value may also exceed the policy value, net of expenses, at early durations.

On Life Plans there is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy even where reserves are positive.

There is a further risk that Life Plan withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings under Life Plans are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

Future earnings under Investment plans are dependent on the value of assets under management and thus future earnings are dependent on the withdrawal and surrender rate.

The lapse risk is managed as follows:

- *Product design*
  Products are designed to be sustainable in the long-term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members who have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal on Life Plans is reduced.

- *Commission clawback*
  Discovery Life predominantly distributes via independent brokers and tied agents. Commissions are clawed back from intermediaries where a policy lapses within the first two years of inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% over the two year period.

- *Client relationships*
  All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policies are conserved.

- *Reinsurance*
  Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses. The reinsurance protects Discovery Life against the loss of assets under insurance contracts in the event that the aggregate lapse rate exceeds a predefined level.

- *Experience monitoring*
  Lapse experience is monitored on a monthly basis and the data is analysed to establish possible trends for which management action can be taken.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected on Life Plans. This could arise as a result of the number of claims or the value of claims being higher than expected.

On guaranteed annuities there is a risk that mortality experience is lower than expected and thus income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2011. Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.

Investment products are not directly impacted by mortality and morbidity risks. The Annuity Integrator's Ill-health booster boosts retirement income on severe illness. The Annuity Integrator's Longevity booster boosts retirement income every 10 years. The Life Booster increases the investment fund value by between 5% and 15% on death, depending on Vitality status. The costs of the benefits were allowed for in the product design and pricing of the benefits.

Selection risk is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience on Life Plans or lower mortality on guaranteed annuity policies.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

- *Product design and pricing*
  Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age. Discovery Life has the unique ability to take additional rating factors into account for example the current medical scheme claims and life style factors.

  All new premium rates are reviewed and approved by the statutory actuary. Product integration between the different product offerings in the Discovery Group helps to attract healthier lives than average in the market leading to positive selection.

2. Management of insurance and financial risk CONTINUED

2.1.1 Discovery Life and Discovery Invest CONTINUED

For certain of the product-options offered under the Life Plan, Discovery Life has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed. Where guarantees are offered, Discovery guarantees that premiums can only be reviewed every 10 years and increased by a maximum of 25%. The guarantee provided to the policyholder will, however, be strengthened based on the policyholder's actual annual historic Vitality status.

Discovery Life predominantly operates in the high end of the insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

Group business is reviewed on a contract by contract basis, with the review period never exceeding two years. AIDS risk is specifically allowed for in the pricing of individual groups.

Overall, Discovery Life has experienced better than anticipated claims experience during every reporting period since its inception in 2001.

- *Underwriting*
  Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. For individual policies with lump sum life cover, the minimum requirement will be an HIV test.

  Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified. For Integrated policies, Discovery Life can dynamically adjust certain premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.

  Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.

  Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance*
  Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.

  In addition, reinsurers provide specialist advice when designing new products.

  Discovery Life utilises surplus reinsurance to reinsure the proportion of each risk in excess of R3 million as at the policy inception. Discovery Life is thus protected against large individual claims.

  In addition, catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual and group business are covered by catastrophe reinsurance.

- *Experience monitoring*
  Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis.

Expenses

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies or a reduction in the assets under management. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model does not accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

The original actuarial model was tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any modelling changes.

The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. Discovery Life does not have any legacy systems that could impact on the data quality.

Operational/Implementation risk
Segregation of duties ensures multiple checks on process and further protects against the risk of fraud.

Discovery does not have any legacy systems and processes to deal with thereby reducing operational risk.

Regulatory risk
Discovery Life operates in a highly regulated environment which is currently being scrutinised and questioned by both consumers and regulators. This has resulted in the constant review of the in force regulations and the interpretation thereof. The regulatory risk can thus be defined as the potential detrimental impact unexpected changes in regulations (or interpretation thereof) may have on Discovery Life.

Discovery Life is a member of the Association for Savings and Investment SA, an industry-wide body that engages in discussions with policymakers and regulators.

Although Discovery endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by Discovery Life have to be signed off by the independent statutory actuary.

Discovery Life's compliance department enhances regulatory compliance through audits and by monitoring developments in the regulatory environment.

Tax risk
Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

Currency risk
All of Discovery Life's insurance benefits are Rand denominated, with the exception of the Global Linkage Benefit, a benefit where the sum insured can be linked to global investment markets or a selection of currencies. The Global Linkage Benefit is fully reinsured.

Discovery Life thus does not have significant net currency risk.

Capital adequacy requirements and protection against adverse experience
There is a risk that future premiums, investment return and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are maintained in all insurance liabilities. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience.

In accordance with the Long-term Insurance Act (1998) Discovery Life is required to demonstrate solvency to the Registrar of Long-term Insurance. Discovery Life thus needs to maintain sufficient shareholder assets, over and above the assets required to fund shareholder liabilities, to fund the Capital Adequacy Requirement (CAR).

The CAR is calculated in accordance with the Professional Guidance Note (PGN) 104 as issued by the Actuarial Society of South Africa (ASSA). The CAR calculation is intended to approximate a risk-based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- lapse and withdrawal risk;
- fluctuations in mortality and morbidity experience;
- fluctuation in expense experience;
- AIDS risk;
- risk of asset liability mismatches;
- risk of worse than expected investment returns;
- operational risk; and
- credit risk.

Discovery Life regularly reviews the capital position and also considers various new business scenarios. Typically a five-year new business projection horizon is allowed for and the capital position is assessed at each valuation date during the projection to ensure an acceptable capital cover is maintained.

No management action was allowed for to offset adverse conditions.

At 30 June 2011, the statutory capital adequacy requirement was R305 million and was covered 3.6 times (2010: the statutory capital adequacy requirement was R275 million and was covered 8.0 times).

2. Management of insurance and financial risk CONTINUED

2.1.1 Discovery Life and Discovery Invest CONTINUED

Liquidity risk

Liquidity risk arises due to a timing mismatch between the assets and liabilities.

Discovery maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, Discovery Life's expected outflows are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business and unexpected fluctuations in benefit payments. As discussed in 2.2.6, Discovery invests primarily in liquid financial assets. There is a need to meet liquidity requirements under the growing Guaranteed Plan book. Liquidity requirements are managed to ensure a liquidity buffer is maintained to meet potential outflows if exit rates are higher than expected. The liquidity risk on the existing portfolio is thus relatively small.

For policies where the sum insured at inception, excluding Cover Integrator and Financial Integrator Benefits, exceeds R3 million the excess above R3 million is reinsured providing stability in claims experience and further reducing the liquidity risk. Cover and Financial Integrator Benefits are reinsured in the same proportion as the Life Fund.

The undiscounted expected statutory cash flows under in-force contracts after policyholder liabilities have been met, net of tax and reinsurance, as at 30 June were as follows:

R million	Year 1	Years 2 to 5	Years 6 to 10	Years 11 to 20	Years 21+
2011					
Discovery Life	**566**	**2 625**	**5 699**	**15 400**	**77 983**
Discovery Invest	**167**	**516**	**705**	**1 183**	**459**
2010					
Discovery Life	555	2 192	4 666	12 902	66 659
Discovery Invest	110	439	485	817	259

Note that the cash flows in the table above differ from those disclosed on pages 175 and 176, since these are based on best estimate free cash flows after meeting policyholder liabilities. Cash flows arising under investment management contracts are further also included. No allowance has been made for new business and related expenses.

Policy wording/legal risks

There is a risk that Discovery could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisers and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards Discovery Life. Discovery Life may thus not be able to apply management policies to reduce risk.

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the chief medical officer and legal advice is obtained where necessary.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.

Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management reviews all product offerings to minimise the reputational risk. All products are approved by the statutory actuary prior to launch.

Reputational risk may also arise if Invest Plans experience worse investment returns than competitors. This may lead to lower future new business and higher surrenders. This risk is mitigated through the use of reputable experienced fund managers and unique, innovative products covering specific risks.

Concentration risk

- *Claims experience risk*

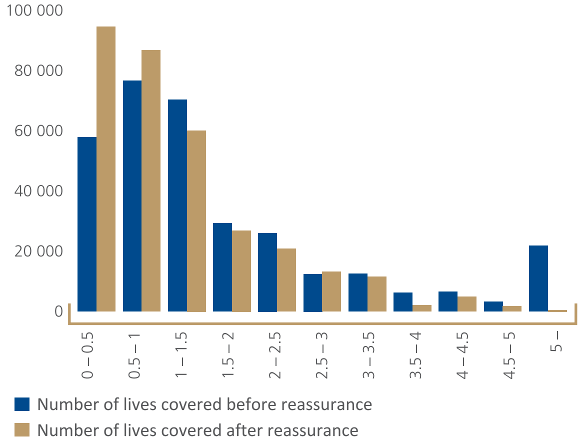
  There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location.

  This risk is mitigated through catastrophe reinsurance.

Discovery Life maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash. The catastrophe reinsurance covers single event disasters for up to R150 million where the net of reinsurance impact is greater than R15 million.

Reinsurance removes the exposure to large individual claims, as demonstrated by the table below:

Impact of reassurance on exposure to large claims
(R million)



The distribution of policies by sum assured is thus shifted towards lower sum assured.

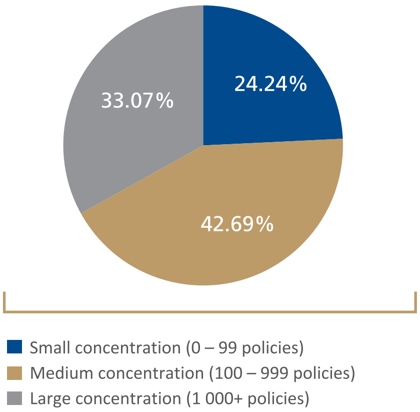
- *Withdrawal concentration risk*
  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

  Discovery Life has a well-diversified book of business by source of new business and spread across more than 7 300 (2010: 7 100) brokers and agents.

  The maximum exposure of Discovery Life to a single intermediary is smaller than 1.5% and to a group of intermediaries is 2.6% (2010: 3.8%) as a percentage of total premium income.

  The distribution of annualised premium income (API) by concentration to an intermediary group is given in the graph below. A large concentration is defined as an intermediary group that has written more than 1 000 Discovery Life policies. A small concentration is defined as an intermediary group that has written less than 100 policies.

API concentration by intermediary
(%)



2. Management of insurance and financial risk CONTINUED

2.1.1 Discovery Life and Discovery Invest CONTINUED

Sensitivity analysis

The financial impact of the key risks that Discovery Life is exposed to, can be demonstrated by considering the sensitivity of the financial results to a hypothetical change in the underlying assumptions or prevailing market conditions.

Although the sensitivities demonstrate the impact of a change in assumption, the results generally cannot be extrapolated to demonstrate the impact on future earnings and earnings forecasts.

For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for any management action, for example premium increases, to react to the worse than expected experience.

The ranges of sensitivity were chosen for illustration purposes and do not represent the extremes of possible experience.

The sensitivities shown under insurance risks consider a change in the long-term assumption used in the projection model.

The following sensitivities are provided under insurance risk:

Lapses: The lapse, surrender and withdrawal rates are increased or decreased across all policies and investment plans.
Renewal expenses: Renewal expense per policy increased or decreased across all policies and investment plans.
Mortality and morbidity: The mortality rate, disability rate and severe illness rates are increased and decreased across all policies and investment plans.
Long-term investment return and inflation: A parallel shift is assumed in the yield curve. The investment return, inflation, renewal expense inflation and inflation-linked premium increases are adjusted consistently.

Assets under insurance contracts in the statement of financial position include assets for both Discovery Life and PruProtect. The total assets under insurance contracts less reinsurance recoveries are R8 316 million (2010: R6 544 million) (refer note 4). R738 million (2010: R179 million) of this relates to PruProtect. The sensitivities in the table below relate to Discovery Life.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2011 assumptions	**7 578**	
Lapses +10% (eg. From x% to 1.1x%)	**6 769**	**(10.7)**
Lapses -10% (eg. From x% to 0.9x%)	**8 447**	**11.5**
Investment return and inflation -1% (eg. From 5% to 4%)	**8 784**	**15.9**
Investment return and inflation +1% (eg. From 5% to 6%)	**6 515**	**(14.0)**
Expense assumption +10%	**7 376**	**(2.7)**
Expense assumption -10%	**7 701**	**1.6**
Mortality and morbidity +10%	**5 848**	**(22.8)**
Mortality and morbidity -10%	**9 357**	**23.5**
Base: June 2010 assumptions	6 365	
Lapses +10% (eg. From x% to 1.1x%)	5 728	(10.0)
Lapses -10% (eg. From x% to 0.9x%)	7 120	11.9
Investment return and inflation -1% (eg. From 5% to 4%)	7 256	14.0
Investment return and inflation +1% (eg. From 5% to 6%)	5 649	(11.2)
Expense assumption +10%	6 231	(2.1)
Expense assumption -10%	6 498	2.1
Mortality and morbidity +10%	5 017	(21.2)
Mortality and morbidity -10%	7 819	22.8

Liabilities arising from insurance contracts consist of outstanding reported claims, IBNR claims and long-term liabilities relating to fixed and guaranteed contracts and unit-linked contracts. For outstanding reported claims and IBNR claims any deviation from the best estimate liabilities would have a direct impact on profit.

For long-term insurance liabilities relating to fixed and guaranteed contracts and unit-linked contracts, the sensitivities are detailed in the table below:

	Liabilities under insurance contracts R million	Change from base assumption %
Base: June 2011 assumptions	**2 698**	
Lapses +10% (eg. From x% to 1.1x%)	**2 710**	**0.4**
Lapses -10% (eg. From x% to 0.9x%)	**2 686**	**(0.5)**
Investment return and inflation -1% (eg. From 5% to 4%)	**2 819**	**4.5**
Investment return and inflation +1% (eg. From 5% to 6%)	**2 584**	**(4.2)**
Expense assumption +10%	**2 706**	**0.3**
Expense assumption -10%	**2 691**	**(0.3)**
Mortality and morbidity +10%	**2 704**	**0.2**
Mortality and morbidity -10%	**2 693**	**(0.2)**
Base: June 2010 assumptions	1 880	
Lapses +10% (eg. From x% to 1.1x%)	1 888	0.4
Lapses -10% (eg. From x% to 0.9x%)	1 871	(0.5)
Investment return and inflation -1% (eg. From 5% to 4%)	1 976	5.1
Investment return and inflation +1% (eg. From 5% to 6%)	1 788	(4.9)
Expense assumption +10%	1 885	0.3
Expense assumption -10%	1 875	(0.3)
Mortality and morbidity +10%	1 884	0.2
Mortality and morbidity -10%	1 876	(0.2)

Reconciliation of the insurance liabilities disclosed in the sensitivities above to the statement of financial position (note 16):

R million	June 2011	June 2010
Total liabilities under insurance contracts net of reinsurance recoveries	**10 441**	6 077
Less short-term liabilities net of reinsurance recoveries:		
– claims reported and loss adjustment expenses	**(1 700)**	(1 162)
– claims incurred but not reported	**(446)**	(145)
– unearned premiums	**(430)**	(31)
Less unit-linked portion of insurance contracts	**(4 454)**	(2 656)
Long-term non-linked insurance liabilities	**3 411**	2 083
Less insurance liability included in unit-linked insurance contracts	**(713)**	(203)
	2 698	1 880

2.1.2 Discovery Insure

Product description

The policies underwritten by Discovery Insure are as follows:

Motor

Provides cover for loss, damage and liabilities arising from the use or ownership of motor vehicles. The cover includes comprehensive, third party, fire, theft and third party liability cover.

Property

Provides cover for loss or damage from specified events – such as fire, storm, theft etc. – to movable and immovable property belonging to the insured.

Liability

Provides cover for risks relating to the insured incurring personal liability to specified third parties which are not specifically covered under another insurance contract.

Limiting exposure to insurance risks

Discovery Insure will diversify risks through continued sale of short-term insurance products and amplification in the pool of insured risks. The diversification of Discovery Insure's portfolio of risks will therefore minimise the variability of insurance losses affecting the portfolio.

2. Management of insurance and financial risk CONTINUED

2.1.2 Discovery Insure CONTINUED

Discovery Insure limits its exposure to insurance risk through setting a clearly defined underwriting strategy as well as its reinsurance programme which is structured to protect Discovery Insure against material losses.

Underwriting strategy

Discovery Insure aims to manage risk through diversifying the pool of insured risks by establishing a balanced portfolio of insurance risks over a wide geographical area. Short-term insurance risks are priced on an individual basis, therefore a minimal cross subsidy exists between risks.

Premiums are calculated using statistical regression techniques. Insurance risk factors identified would typically include the past insurance history, type and value of asset covered, measures taken to protect the asset, primary use of covered item and various other pertinent factors.

Discovery Insure's quotation and administration system calculates risk on an individual basis based on information captured by brokers and agents for each risk. Individual risks are accepted automatically up to cut-off limits which vary by risk type. Insurance conditions and exclusions are also automatically set at an individual risk level.

Individual risks greater than the limit are automatically referred and underwritten by the underwriting department. No risks are accepted which exceed the upper limits of the reinsurance contracts without the necessary facultative cover being arranged.

Reinsurance strategy

Discovery Insure reinsures a portion of the risk it underwrites to protect the profitability and the capital of the Company. A variety of treaties are assumed in order to limit losses resulting from individual and collective insurance risks. Additional facultative reinsurance is purchased for certain individual risks that are in excess of the relevant treaty limits. Discovery Insure only enters into reinsurance arrangements with reinsurers that have adequate credit ratings.

2.1.3 PruHealth

Product description

PruHealth offers three main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Starter discounts:** Discounts are available based on answers to healthcare questions.
- **Renewal discounts:** Discounts are offered at renewal depending on claims and Vitality status.
- **Vitality rewards:** Full Vitality package, including gym offering and healthcare-related rewards.

SME product

This is an age-rated product offered to small groups (2-100) either direct or via a broker. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Renewal discounts for employers:** Discounts are offered at renewal depending on loss ratio.
- **Cashback:** Employees may be eligible for cash bonuses depending on the amount claimed during the period and their Vitality status and depending on the PHL cover selected by their employer.
- **Vitality rewards:** A full Vitality package is offered to PHL customers including gym offering and healthcare-related rewards.

Corporate product

This is a product offered by brokers and employee benefit consultants. The product features include:

- **Private Medical Insurance:** Cover is offered for a range of private healthcare-related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions.
- **Cashback:** Companies can select their desired level of cashback with PHL. If selected, employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- **Vitality rewards:** A full Vitality package is offered, including gym offering and healthcare-related rewards.

Insurance risks

PruHealth takes a proactive approach to managing its risk and each business unit responsible for the risk groupings identified below have initiated a series of risk management processes to ensure that they are adequately controlled.

The key areas of risk are premium pricing, claims volatility and failing to meet target levels of business. Monthly meetings are held to review actual experience against original pricing assumptions. The standard terms and conditions applicable to the Company's products mitigate the risk of late reporting of claims. Current claims experience is monitored against expected to ensure that PruHealth's current pricing assumptions are reasonable. Information is fed into the pricing reviews conducted by the Actuarial and Underwriting department. On a quarterly basis, the financial forecast is reviewed against emerging experience. PruHealth measures profitability and solvency using a financial model of the business that projects in-force and expected new business cash flows.

Excess of loss reinsurance has been utilised in the past to mitigate the risk of undue concentrations of insurance risk. Due to the short tail nature of the Company's risks all claims are expected to be settled within 12 months of reporting and accordingly, the Company has not presented a comparison of actual claims compared with previous estimates. Loss development tables are not provided since all claims are typically settled within a year of the claim arising.

With effect from 1 October 2006, PruHealth entered into a quota share agreement effectively reinsuring 50% of the risk profit of all PHL new business written from that date for a period of approximately seven years. This agreement was amended, effective from 1 October 2007, extending the period of reinsurance by approximately five years and increasing the reinsurer's limit of liability (including, without limitation, for benefits or expenses allowance) from GBP15 million to GBP25 million in excess of the total premium ceded to the reinsurer. This agreement was further amended in December 2008 increasing the reinsurer's limit of liability to GBP35 million in excess of the total premium ceded to the reinsurer. This treaty was further amended in December 2010 reducing the quota share rate to 40%, recapturing GBP10 million of the funding and making future funding of GBP10 million available during 2011 (effectively maintaining the reinsurer's limit of liability to GBP35 million in excess of the total premium ceded to the reinsurer.)

During June 2009, PruHealth entered into a new quota share agreement effectively reinsuring 18% of the risk profit of two tranches of business, the in-force PHL tranche as at 31 December 2008 and the PHL new business tranche of new business written in the 12 months ending 31 December 2009. This agreement made available GBP16 million of reinsurance funding. GBP16 million of the reinsurance funding had been received by the end of June 2010 (2009: GBP14 million).

During September 2009, PruHealth entered into a new quota share agreement effectively reinsuring 11% of the PHL in-force tranche as at 31 December 2008 and 18% of the PHL new business tranche of new business written in the 12 months ending 31 December 2009. This agreement made available GBP9.2 million of reinsurance funding. GBP9.2 million of the reinsurance funding had been received by the end of June 2010. This treaty was subsequently recaptured during December 2010.

During June 2010, PruHealth entered into a new quota share agreement effectively reinsuring 50% of the tranche of new business written in the 12 months ending 31 December 2010. This agreement made available GBP8.5 million of reinsurance funding. GBP4.3 million of the reinsurance funding was recognised by the end of June 2010. This treaty was subsequently recaptured during December 2010.

Capital adequacy requirements and protection against adverse experience
PruHealth maintains shareholder capital to meet substantial deviations in experience.

At 30 June 2011, the statutory capital adequacy requirement was GBP60.6 million (2010: GBP12.9 million). PruHealth currently holds capital resources that are 30% in excess of the highest level of capital resources requirement.

IBNR calculation

PruHealth adopts two reserving methodologies. Firstly, the 'chain ladder' approach which assume that there is stability in the delays from treatment date to payment date and therefore future payments can be estimated using historical experience. Secondly, an 'independent measure' approach applied to the most recent treatment months, which assumes that the total costs arising from each month of treatment can be estimated independent of any payments already made.

A 10% increase in assumed IBNR will result in a R38 million (2010: R9 million) increase in the IBNR provision.

2.1.4 PruProtect

Product description

PruProtect plan overview
The PruProtect plan is a lifestyle protection plan which allows customers to select from a menu of benefits which includes:

- life cover;
- serious illness cover;
- capital disability cover;
- income protection insurance;
- unemployment cover;
- waiver of premium on death, serious illness and/or incapacity; and
- additional optional serious illness cover for children.

Structure
The PruProtect plan has at its basis a Plan Account. The Plan Account defines the amount paid out under any benefit that is attached to it. The benefits that are attached to the Plan Account are expressed as a percentage of the Plan Account's value.

The Plan Account can be structured to provide cover that is level, increasing or decreasing.

The PruProtect plan can be written on a single or joint life basis and cover may be stand-alone or limited to the Plan Account whereby claims would accelerate payment of the Plan Account. Premiums are payable monthly in advance and can be guaranteed or reviewable. The plan does not offer any surrender value.

2. Management of insurance and financial risk CONTINUED

2.1.4 PruProtect CONTINUED

The PruProtect Plan provides extensive severity-based cover for serious illness.

At 30 June 2011, there were 68 880 PruProtect policies with an annualised premium income of GBP41.2 million (2010: 35 798 PruProtect policies with an annualised premium income of GBP22.2 million).

Insurance risks

PruProtect takes a proactive approach to managing its risk. Risk management processes are employed to ensure business units identify and control the risks to which they are exposed. Discovery has a 75% interest in PruProtect, with Prudential Assurance Company Limited (PAC) holding the balance of 25%. Innovation is a strong focus of PruProtect and is driven by the combined experience of PAC and Discovery. PruProtect benefits from internal as well as the government structures of PAC and Discovery.

The key insurance risks of the business are driven by the mortality and morbidity of PruProtect policyholders. Claims experience and price competitiveness are reviewed at each monthly Management Committee. Experience analysis motivates changes to the assumptions used in the actuarial model. The same model is used for valuation and forecasting.

The life, serious illness, disability and income protection benefits of the PruProtect product are reinsured with a maximum retention of 50%. The unemployment benefit offered as part of the PruProtect product is fully reinsured.

Market and mismatching risk

The insurance-related cash outflows (eg. benefit payments, administration expenses, etc.) have been matched predominantly with future premiums. The valuation discount rate is set with reference to the prevailing risk-free gilt yield. The value of assets under insurance contracts is subject to interest rate risk. There is thus a risk that a change in the risk-free gilt yield could cause a change in the value of the assets under insurance contracts. PruProtect has no investment or embedded derivative type products.

Lapse risk

Policyholders have the option to discontinue or reduce contributions at any time.

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped.

There is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy even where actuarial reserves are positive.

There is a further risk that withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

The lapse risk is managed as follows:

- *Product design*
  Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Vitality provides unique rewards and benefits to policyholders which have proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.

- *Commission clawback*
  PruProtect predominantly distributes via independent intermediaries.

  Commissions are clawed back from intermediaries where a policy lapses early on. The clawback period is currently either two or four years. The amount of commission clawback depends on the amount of unearned commission over the period. There is a credit risk associated with clawing back commission from brokers.

- *Client relationships*
  All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policy is conserved.

- *Experience monitoring*
  Lapse experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide credible results, so significant reliance is placed on reinsurers' advice as well as experience from Discovery Life and PAC.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected.

Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

- *Product design and pricing*

  Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age.

  For certain of the product-options offered, PruProtect has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered.

- *Underwriting*

  Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. This is achieved by different levels of medical underwriting, depending on the answers to medical questions on the application form. Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for. Premium loadings and exclusions are applied where high risks are identified.

  Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance*

  Reinsurance protects against volatility in claims experience and against an accumulation of risk. In addition, reinsurers provide specialist advice when designing new products.

- *Experience monitoring*

  Experience is monitored on a monthly basis and analysed to establish possible trends for which management action can be taken. Data is currently not sufficient to provide credible results, so significant reliance is placed on reinsurers' advice as well as experience from Discovery Life and PAC.

Expenses

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model doesn't accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

Any changes made to the model are reviewed.

The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from modern administration systems and subjected to detailed checks together with high-level reasonability checks. PruProtect does not have any legacy systems that could impact on the data quality.

Operational/Implementation risk

Segregation of duties ensures multiple checks on process and further protects against the risk of fraud.

PruProtect does not have any legacy systems and processes to deal with thereby reducing operational risk.

Regulatory risk

PruProtect operates in a highly regulated environment. The regulatory risk can be defined as the potential detrimental impact of unexpected changes in regulations (or interpretation thereof).

Although PruProtect endeavours to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by PruProtect are subject to a rigorous sign-off process.

2. Management of insurance and financial risk CONTINUED

2.1.4 PruProtect CONTINUED

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation. Taxation of UK Life assurers is currently under review by Her Majesty's Revenue Services.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

Currency risk

All of PruProtect's insurance benefits are Sterling denominated as all business is sold in the UK market.

A significant part of operational expenses are Rand denominated as systems and administration are based in South Africa. This creates a potential mismatching risk.

Results are published in Rands in Discovery's Annual Financial Statements creating movement in the values due to currency fluctuations.

Solvency capital requirements and protection against adverse experience

There is a risk that future premiums, investment return and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are allowed for in the calculation of all insurance liabilities.

The Financial Services Authority (FSA) provides guidance and regulation under the Financial Services and Markets Act of 2000. The Prudential Sourcebook for Insurers (INSPRU) contains standards for capital management.

Capital requirements are calculated based on the concept of two pillars:

- Pillar 1, which covers public solvency information that appears within the FSA returns on the basis of prescriptive rules. This includes the statutory valuation of liabilities together with a prescribed measure of additional capital, the Long-Term Insurance Capital Requirement (LTICR).
- Pillar 2, the Individual Capital Assessment (ICA), which covers a confidential company-specific assessment of solvency. This assessment is done on a realistic basis with the aim to protect against risks up to the 99.5 percentile over a one-year period.

The LTICR is a minimum required margin for solvency on the statutory valuation basis and covers the following basic risks:

- death risk;
- expense risk;
- market risk; and
- health risk.

The ICA is a risk-based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- lapse and withdrawal risk;
- fluctuations in mortality and morbidity experience, including catastrophe risk;
- expense risk;
- mis-selling risk;
- credit and default risk;
- risk of worse than expected investment returns;
- operational risk;
- exchange rate risk; and
- tax risk.

The amount of capital that ultimately needs to be held by a life insurance company in the UK is the larger of the Pillar 1 and Pillar 2 results.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with insurance liabilities due to insufficient cash being available to meet commitments as and when they become due. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

PruProtect maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, PruProtect's expected liabilities are mostly long-term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

Policy wording/legal risks

There is a risk that PruProtect could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings or complaints by policyholders.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisers and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards PruProtect. PruProtect may thus not be able to apply management policies to reduce risk.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations and are subject to a rigorous sign-off process.

PruProtect management reviews all product offerings to minimise the reputational risk. All products are subject to a rigorous sign – off process.

Concentration risk

- *Claims experience risk*

  There is a risk that a concentration of risk can lead to worse than expected experience.

  PruProtect maintains a well-diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Reinsurance removes the exposure to large individual claims.

- *Withdrawal concentration risk*

  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

  PruProtect has a well-diversified book of business by source of new business and spread across more than 4 700 (2010: 3 700) brokers and agents.

  The maximum exposure of PruProtect to a single intermediary is smaller than 4.6% (2010: 4.7%) in annualised premium income.

2.2 Financial risks

Discovery is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets, reinsurance liabilities and insurance assets and insurance liabilities. Financial risks include market risk, credit risk and liquidity risk.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

- Equity risk: The impact of changes in equity prices and dividend income.
- Interest rate risk: The impact of changes in market interest rates.
- Currency risk: The impact of changes in foreign exchange rates.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities due to insufficient cash being available to meet commitments as and when they become due.

Financial risks are managed by Discovery as follows:

- Discovery has appointed reputable external asset managers to manage its investments.
- The Actuarial Committee reviews the overall matching of shareholder and policyholder assets.
- The Shareholders' Assets Investment Committee (SAIC) is a sub-committee of the Executive Committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The SAIC also sets exposure limits for exposures to individual counterparties.
- Discovery periodically engages external consultants to review past investment decisions.
- The Investment Committee is a sub-committee of the SAIC and meets monthly to make practical decisions regarding Discovery's liquidity and foreign currency exposure.

Discovery has not significantly changed the processes used to manage its risks from previous periods.

To assist in the analysis of the financial risks that Discovery is exposed to, the statement of financial position has been divided into the following categories:

- unit-linked investment contracts;
- unit-linked insurance contracts;
- other insurance contracts;
- shareholder financial assets and liabilities; and
- shareholder non-financial assets and liabilities.

The table on page 172 lists the contracts that Discovery offers and the category they are included in for financial risk disclosures.

The required disclosures for interest rate, equity price and currency risks are given separately for each category listed above. Credit risk and liquidity risk disclosures are provided for shareholder asset and liabilities only.

2. Management of insurance and financial risk CONTINUED

2.2 Financial risks CONTINUED

The following tables reconcile the Group statement of financial position to the classes of risks and the categories listed on the previous page:

30 June 2011					Shareholder	
R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Financial assets and liabilities	Other assets and liabilities
Assets arising from insurance contracts	9 044	–	(1 326)	10 370	–	–
Financial instruments at fair value through profit or loss:						
Listed:						
– Equity securities	2 761	436	2 296	29	–	–
– Debt securities	1 292	72	85	1 135	–	–
– Inflation linked securities	116	13	34	69	–	–
– Money market securities	230	151	62	17	–	–
Unlisted:						
– Equity securities	121	30	88	3	–	–
– Equity linked notes	4 692	1 002	3 681	9	–	–
– Debt securities	27	27	–	–	–	–
– Money market securities	1 208	235	472	501	–	–
Available-for-sale financial instruments:						
Listed:						
– Equity securities	546	–	–	–	546	–
– Debt securities	172	–	–	–	172	–
– Inflation linked securities	43	–	–	–	43	–
– Money market securities	974	–	–	–	974	–
Unlisted:						
– Equity securities	39	–	–	–	39	–
– Equity linked notes	50	–	–	–	50	–
– Debt securities	44	–	–	–	44	–
– Money market securities	268	–	–	–	268	–
Derivative financial instruments at fair value:						
– Hedges	40	–	–	–	40	–
– Non-hedges	6	–	–	–	6	–
Loans and receivables:						
– Insurance receivables	816	–	–	–	816	–
– Other	1 453	5	6	–	1 442	–
Reinsurance contracts	180	–	–	180	–	–
Cash and cash equivalents	3 285	97	119	(41)	3 110	–
Other assets	3 498	–	–	–	–	3 498
Total assets	**30 905**	**2 068**	**5 517**	**12 272**	**7 550**	**3 498**
Liabilities arising from insurance contracts	10 621	–	5 167	5 454	–	–
Liabilities arising from reinsurance contracts	1 308	–	–	1 308	–	–
Investment contracts at fair value through profit or loss	2 063	2 063	–	–	–	–
Borrowings at amortised cost	402	–	–	–	402	–
Derivative financial instruments at fair value:						
– Hedges	12	–	–	–	12	–
– Non-hedges	10	–	–	–	10	–
Puttable non-controlling interests	2 314	–	–	–	2 314	–
Trade and other payables	2 391	5	6	–	2 380	–
Other liabilities	2 811	–	–	–	–	2 811
Total liabilities	**21 932**	**2 068**	**5 173**	**6 762**	**5 118**	**2 811**

30 June 2010					Shareholder	
R million	Total	Unit-linked investment contracts	Unit-linked insurance contracts	Insurance contracts	Financial assets and liabilities	Other assets and liabilities
Assets arising from insurance contracts	7 076	–	(732)	7 808	–	–
Financial instruments at fair value through profit or loss:						
Listed:						
– Equity securities	1 437	296	1 141	–	–	–
– Debt securities	371	54	84	233	–	–
– Inflation linked securities	35	15	20	–	–	–
– Money market securities	241	150	45	46	–	–
Unlisted:						
– Equity securities	97	36	61	–	–	–
– Equity linked notes	2 805	565	2 235	5	–	–
– Debt securities	4	4	–	–	–	–
– Money market securities	873	234	230	409	–	–
Available-for-sale financial instruments:						
Listed:						
– Equity securities	1 330	–	–	–	1 330	–
– Debt securities	275	–	–	–	275	–
– Inflation linked securities	33	–	–	–	33	–
– Money market securities	31	–	–	–	31	–
Unlisted:						
– Equity securities	28	–	–	–	28	–
– Equity linked notes	56	–	–	–	56	–
– Debt securities	64	–	–	–	64	–
– Money market securities	308	–	–	–	308	–
Derivative financial instruments at fair value:						
– Hedges	104	–	–	–	104	–
– Non-hedges	7	–	–	–	7	–
Loans and receivables:						
– Insurance receivables	849	–	–	–	849	–
– Other	1 036	6	4	2	1 024	–
Reinsurance contracts	121	–	–	121	–	–
Cash and cash equivalents	2 845	185	90	32	2 538	–
Other assets	968	–	–	–	–	968
Total assets	20 994	1 545	3 178	8 656	6 647	968
Liabilities arising from insurance contracts	6 198	–	2 860	3 338	–	–
Liabilities arising from reinsurance contracts	1 160	–	–	1 160	–	–
Investment contracts at fair value through profit or loss	1 544	1 544	–	–	–	–
Borrowings at amortised cost	23	–	–	–	23	–
Derivative financial instruments at fair value:						
– Non-hedges	12	–	–	–	12	–
Trade and other payables	1 681	1	2	–	1 678	–
Other liabilities	1 994	–	–	–	–	1 994
Total liabilities	12 612	1 545	2 862	4 498	1 713	1 994

2. Management of insurance and financial risk CONTINUED

2.2.1 Unit-linked investment contracts

Unit-linked investment contracts relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. The market risk (including equity, interest rate and currency risk) for these contacts is therefore borne by the policyholder. Discovery holds the assets on which the unit prices are based and as a result, there is no mismatch.

	Investments held at risk of investment policyholders	
R million	**June 2011**	June 2010
Financial assets at fair value through profit or loss:		
Listed:		
– Equity securities	**436**	296
– Debt securities	**72**	54
– Inflation linked securities	**13**	15
– Money market securities	**151**	150
Unlisted:		
– Equity securities	**30**	36
– Equity linked notes	**1 002**	565
– Debt securities	**27**	4
– Money market securities	**235**	234
Accounts receivable	**5**	6
Cash and cash equivalents	**97**	185
Total financial assets	**2 068**	1 545
Total financial liabilities	**2 068**	1 545

In December 2009, the LifeBooster benefit was added to all Discovery Invest Endowment Plans, Recurring Retirement Plans and Linked Retirement Income Plans. The LifeBooster was added to existing and new policies. The LifeBooster differentiates the Discovery Invest offering in an otherwise commoditised environment by introducing a death benefit linked to Vitality status. Given that significant insurance risk is introduced by this benefit the status of the affected contracts changed from unit-linked investment contracts to unit-linked insurance contracts under IFRS.

The policyholder liabilities relating to these Discovery Invest policies were previously accounted for in terms of IAS 39: Financial instruments, as investment contracts at fair value through profit or loss. Insurance contracts are accounted for under IFRS 4: Insurance contracts.

This had the following effect on the June 2010 year-end results:

– Policyholder liabilities under investment contracts were reduced by R1.8 billion, being the value of the investment contracts as at 30 November 2009.
– R1.8 billion was included in insurance premium income and then transferred to liabilities arising from insurance contracts, in the income statement.
– Deferred acquisition costs and deferred revenue liabilities previously raised in respect of the investment contracts were reversed to acquisition costs and fee income respectively, and an asset under insurance contracts (negative reserve) was raised in respect of the insurance contracts. The net effect on profit or loss was an increase in acquisition costs deferred of approximately R58 million (R46 million related to contracts in-force at 30 June 2009).

In respect of IFRS-defined investment management contracts there may be an associated deferred acquisition cost intangible asset. There is a risk that in the event of adverse market movements, future expected management fees may reduce and consequently this asset may not be realised and therefore necessitate impairment.

Certain unit trusts in which Discovery owns in excess of 50% of the units are classified as subsidiaries and are consolidated. These consolidated unit trusts are included in unit-linked investment contacts.

Certain contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For these contracts the Group is not required to measure this embedded derivative at fair value. This surrender value is equal to or less than the carrying amount of the contract liabilities. The impact on the Group's current-year results if all the contracts with this option were surrendered at the financial year-end would have been a loss of R77 million (2010: R48 million).

A maturity analysis based on the earliest contractual repayment date would present R2 068 million (2010: R1 545 million) of the liabilities as due on the earliest period of the table (between 0 and one year).

Sensitivity analysis

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based.

A decrease of 10% in the value of the assets would reduce the asset management fees by R7 million per annum (2010: R3.6 million).

2.2.2 Unit-linked insurance contracts

A unit-linked insurance contract is an IFRS-defined insurance contract with a component that is linked to the units of an underlying portfolio. For this component, Discovery holds the assets on which the unit prices are based. However, the gross unit liabilities are reduced by the present value of future charges less the present value of future expenses and risk claims. Some market risk is therefore retained on these contracts. The unit-linked component is not accounted for separately from the host insurance contract.

	Investments held at risk of insurance policyholders	
R million	**June 2011**	June 2010
Assets arising from insurance contracts	**(1 326)**	(732)
Financial assets at fair value through profit or loss:		
Listed:		
– Equity securities	**2 296**	1 141
– Debt securities	**85**	84
– Inflation linked securities	**34**	20
– Money market securities	**62**	45
Unlisted:		
– Equity securities	**88**	61
– Equity linked notes	**3 681**	2 235
– Money market securities	**472**	230
Loans and receivables	**6**	4
Cash and cash equivalents	**119**	90
Total financial assets	**5 517**	3 178
Total financial liabilities	**5 173**	2 862

All contracts can be surrendered before maturity for a cash surrender value specified in the contractual terms and conditions. For these contracts the Group is not required to measure this embedded derivative at fair value. This surrender value is equal to or less than the carrying amount of the contract liabilities. The impact on the Group's current-year results if all the contracts with this option were surrendered at the financial year-end would have been a loss of R692 million (2010: R242 million).

A maturity analysis based on the earliest contractual repayment date would present R4 986 million (2010: R2 852 million) of the liabilities as due on the earliest period of the table (between 0 and one year) and at 30 June 2011, R187 million (2010: R10 million) of the liabilities would be due between one and five years.

Sensitivity analysis

Discovery's primary exposure to market risk from these contracts is the volatility in asset management fees due to the impact of interest rate, equity price and currency movements on the fair value of the assets held in the linked funds, on which the investment management fees are based.

A decrease of 10% in the value of the assets would reduce the asset management fees by R16 million per annum (2010: R9.4 million).

The insurance liability of R1 326 million (2010: R732 million) is included in the sensitivity analysis presented on page 182 in respect of assets arising from insurance contracts.

2.2.3 Other insurance contracts

For other insurance contracts, Discovery funds the insurance liabilities with a negative reserve and a portfolio of equity, equity linked notes, debt, inflation linked and money market securities.

Liabilities are not determined with reference to specific assets actually held by the Company and therefore expose the shareholders to the market risks associated with the investments held to fund these liabilities. These market risks are disclosed in note 2.2.4.

The insurance risks related to these contracts are disclosed in note 2.1.

2. Management of insurance and financial risk CONTINUED

2.2.4 Shareholder financial assets and liabilities

Other financial assets and liabilities are summarised below:

R million	June 2011	June 2010
Financial assets at fair value through profit or loss:		
Listed:		
– Equity securities	**29**	–
– Debt securities	**1 135**	233
– Inflation linked securities	**69**	–
– Money market securities	**17**	46
Unlisted:		
– Equity securities	**3**	5
– Equity linked notes	**9**	–
– Money market securities	**501**	409
Available-for-sale financial assets:		
Listed:		
– Equity securities	**546**	1 330
– Debt securities	**172**	275
– Inflation linked securities	**43**	33
– Money market securities	**974**	31
Unlisted:		
– Equity securities	**39**	28
– Equity linked notes	**50**	56
– Debt securities	**44**	64
– Money market securities	**268**	308
Derivative financial instruments at fair value:		
– Hedges	**40**	104
– Non-hedges	**6**	7
Loans and receivables	**2 258**	1 875
Cash and cash equivalents	**3 069**	2 570
Total financial assets	**9 272**	7 374
Borrowings at amortised cost	**402**	23
Derivative financial instruments at fair value:		
– Hedges	**12**	–
– Non-hedges	**10**	12
Puttable non-controlling interests	**2 314**	–
Trade and other payables	**2 380**	1 678
Total financial liabilities	**5 118**	1 713

Financial investments

Discovery's shareholders assume the entire market risk related to financial investments specifically held to support Discovery's capital base. The determination of the investment philosophy and strategy for the investment of these assets is the responsibility of the SAIC. Assets are managed in line with a mandate approved by the SAIC.

Derivative financial instruments

(a) Non-hedge derivatives

Discovery's asset managers use derivative instruments as mandated to limit or reduce risk.

The majority of derivatives are exchange traded (SAFEX or Yield-X). Exchange traded derivatives are settled daily by reducing exposures (and hence credit risk) to zero at the end of each day. The market values of these derivatives at 30 June 2011 and 2010 were zero. For derivatives with other parties, credit risk arises only where the instrument has a positive value. Discovery has some swap and forward rate agreements with F1+ rated third parties. The value of exposure towards these parties was calculated by taking into consideration the ISDA agreements in place which allow for netting off between positive and negative exposures.

The table below details Discovery's exposure:

R million	Notional amount	Fair value asset	Fair value liability
June 2011			
Interest rate contracts:			
– fixed for floating swaps	**(206)**	*****	**9**
– fixed for fixed swaps	**(161)**	**3**	**1**
– floating for fixed swaps	**(128)**	**3**	*****
	(495)	**6**	**10**
June 2010			
Interest rate contracts:			
– fixed for floating swaps	(147)	–	9
– fixed for fixed swaps	–	3	1
– floating for fixed swaps	147	4	2
	–	7	12

** Amount is less than R500 000*

(b) Hedge derivatives

Discovery has purchased various instruments from a BBB+ rated South African bank to hedge a portion of its exposure to changes in the Discovery share price under its cash-settled share incentive scheme. The details of the phantom share scheme are described in note 33.

As at 30 June 2011, approximately 82.7% (2010: 50.8%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the phantom share scheme on a per instrument basis. Combinations of call and put options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

The cash-settled call options and cash-settled put options held by the Group at 30 June 2010 were:

Date	Strike price	Number of call options	Number of put options
30 September 2010	21.50 – 27.72	2 801 132	2 801 132
30 September 2011	22.30 – 27.72	2 004 332	2 004 332
30 September 2012	26.40 – 27.72	516 956	516 956
		5 322 420	5 332 420

No new call or put options were entered into in the year ended 30 June 2011. The options with the settlement date of 30 September 2010 were settled in full. The options with a settlement date after 30 June 2011 are still outstanding.

The fair value of the call and put options are repriced at each reporting date and were calculated on a Black-Scholes model using the same assumptions as tabled in note 33.

The return swaps held by the Group at 30 June 2010 were:

Date	Strike price	Number of return swaps
30 September 2010	33.36	562 500
30 September 2011	33.94 – 35.08	1 813 750
30 June 2012	35.89	700 000
30 September 2012	34.21 – 38.37	2 264 850
30 June 2013	39.69	1 400 000
30 September 2013	34.44 – 38.37	2 017 662
30 September 2014	35.08 – 38.37	1 252 678
30 September 2015	38.37	584 000
		10 595 440

The fair value of the return swaps are calculated by discounting the future cash flows of the instruments.

2. Management of insurance and financial risk CONTINUED

2.2.4 Shareholder financial assets and liabilities CONTINUED

(c) Forward exchange contracts (FECs)

In the table below, Discovery has agreed to buy US Dollars from third party banks which are BBB or BBB+ rated. The fair value of these contracts has been included in financial liabilities. Discovery entered into these agreements to hedge the foreign currency risk for expenses expected to be paid in the future. The FECs have been designated as a cash flow hedge of a forecast transaction and firm commitment. Gains and losses on the FECs are included in equity and once the expense is incurred the gain/loss is transferred to profit or loss.

Outstanding contracts at 30 June were:

Contract	US$	ZAR	Rate	Maturity dates
2011				
1	**65 000**	**445 250**	**6.85**	**2011/09/15**
2	**400 000**	**2 799 120**	**7.00**	**2012/02/15**
3	**598 000**	**4 118 605**	**6.89**	**2011/12/01**
4	**100 000**	**689 890**	**6.90**	**2011/08/26**
5	**400 000**	**2 758 640**	**6.90**	**2011/08/26**
2010				
1	55 305	491 385	7.74	2010/09/29
2	65 000	591 370	9.10	2010/09/30
3	305 000	2 540 803	8.33	2011/02/02

In the table below, Discovery has agreed to buy Great British Pounds (GBP) from a third party bank which is BBB+ rated. Discovery entered into these agreements to hedge the foreign currency risk of the future purchase of a foreign investment. The fair value of these contracts has been included in financial assets. The FECs have been designated as a cash flow hedge of a forecast transaction and firm commitment. Gains and losses on the FECs are included in equity and once the investment is disposed the gain/loss is transferred to profit or loss. There were no outstanding contracts at 30 June 2011.

Outstanding contracts at 30 June 2010 were:

Contract	GBP	ZAR	Rate	Maturity dates
1	70 000 000	788 200 000	11.26	2010/07/22
2	70 000 000	787 500 000	11.25	2010/07/22

In the table below, Discovery agreed to sell GBP to a third party bank which is BBB+ rated. The fair value of these contracts was included in financial liabilities at 30 June 2010. No new FECs were taken out in the current financial year. Discovery entered into these agreements to hedge future administration fee income receivable from PruHealth. Gains and losses on the FECs were included in profit or loss to match gains or losses on the obligation to PruHealth, following hedge accounting principles. In each case, Discovery has agreed to sell GBP to a third party bank as a hedge against its GBP administration fee receivable from PruHealth.

Outstanding contracts at 30 June 2010 were:

Contract	GBP	ZAR	Rate	Maturity dates
1	146 069	2 500 000	17.12	2009/07/15
2	669 912	12 000 000	17.91	2009/07/15
3	145 097	2 500 000	17.23	2009/08/17
4	777 247	14 000 000	18.01	2009/08/17
5	144 251	2 500 000	17.33	2009/09/15
6	773 528	14 000 000	18.10	2009/09/15
7	143 384	2 500 000	17.44	2009/10/15
8	769 599	14 000 000	18.19	2009/10/15
9	142 407	2 500 000	17.56	2009/11/16
10	765 354	14 000 000	18.29	2009/11/16
11	141 412	2 500 000	17.68	2009/12/15
12	761 975	14 000 000	18.37	2009/12/15
13	140 369	2 500 000	17.81	2010/01/15
14	758 294	14 000 000	18.46	2010/01/15

In the table below, Discovery has agreed to buy Chinese Yuan through US Dollars from a third party bank which is BBB+ rated. Discovery entered into these agreements to hedge future transactions with Ping An Health. Gains and losses on the FECs are included in equity and once the expense is incurred the gain/loss is transferred to profit or loss. There were no outstanding contracts at 30 June 2011.

Outstanding contracts at 30 June 2010 were:

Contract	US$	ZAR	CNY	Rate	Maturity dates
1	14 044 118	109 115 772	–	7.74	2010/08/31
2	14 044 118	–	95 500 000	6.78	2010/08/31

(d) Collar options

Discovery purchased collar options from BBB+ rated South African banks to hedge exposure to changes in foreign currency for transactions entered with foreign entities.

In the table detailed below, Discovery bought the right to buy GBP (call option) and the right to sell GBP (put option). The fair value of these contracts has been included in financial liabilities. No new collar options were taken out in the current financial year. Discovery entered into these agreements to hedge future administration fee income receivable from PruHealth. Gains and losses on the options are included in equity and once the expense is incurred the gain/loss is transferred to profit or loss.

	2010		
Maturity date	Amount	ZAR Call/GBP Put Strike	ZAR Put/GBP Call strike
2010/09/27	30 000 000	10.00	13.4266
2010/12/24	30 000 000	10.00	13.4266
2011/03/04	30 000 000	10.00	13.4266

In the table detailed below, Discovery bought the right to buy USD (call option) and the right to sell USD (put option). Discovery has further sold the right to buy USD (call option) in exchange for Chinese Yuan and has sold its right to sell USD (put option) in exchange for Chinese Yuan. The fair value of these contracts has been included in financial assets. No new collar options were taken out in the current financial year. Discovery has entered into these agreements to hedge future transactions with Ping An Health. Gains and losses on the options are included in equity and once the expense is incurred the gain/loss is transferred to profit or loss. Outstanding contracts at 30 June 2010 were:

Maturity date	Call or put	US$	Strike price	Rand amount	CNY
2010/08/31	Call	14 037 924	7.729	108 499 118	–
2010/08/31	Put	14 037 924	7.729	108 499 118	–
2010/08/31	Call	14 037 924	6.803	–	95 500 000
2010/08/31	Put	14 037 924	6.803	–	95 500 000

2. Management of insurance and financial risk CONTINUED

2.2.4 Shareholder financial assets and liabilities CONTINUED

Maturity analysis

The following table presents a maturity analysis for shareholder financial assets and liabilities based on the remaining contractual maturities.

Contractual cash flows (undiscounted)

R million	Total	<1 year	1 to 5 years	5 to 10 years	>10 years	Open ended
2011						
ASSETS						
At fair value through profit or loss:						
Listed:						
– Equity securities	29	–	–	–	–	29
– Debt securities	1 135	2	297	761	75	–
– Inflation linked securities	69	–	–	–	69	–
– Money market securities	17	17	–	–	–	–
Unlisted:						
– Equity securities	3	–	–	–	–	3
– Equity linked notes	9	–	–	9	–	–
– Money market securities	501	19	482	–	–	–
Available-for-sale financial assets:						
Listed:						
– Equity securities	546	–	–	–	–	546
– Debt securities	172	37	58	50	26	1
– Inflation linked securities	43	–	20	5	18	–
– Money market securities	974	974	–	–	–	–
Unlisted:						
– Equity securities	39	–	–	–	–	39
– Equity linked notes	50	–	–	50	–	–
– Debt securities	44	*	42	1	1	–
– Money market securities	268	267	1	–	–	–
Derivative financial instruments at fair value:						
– Hedges	40	32	8	–	–	–
– Non-hedges	6	4	2	*	*	–
Loans and receivables	2 258	1 982	249	1	16	10
Cash and cash equivalents	3 069	3 069	–	–	–	–
Total	9 272	6 403	1 159	877	205	628
LIABILITIES						
Borrowings[(1)]	646	41	195	410	–	–
Derivative financial instruments at fair value:						
– Hedges	12	–	12	–	–	–
– Non-hedges	10	1	8	*	1	–
Puttable non-controlling interests[(1)]	3 958	–	–	3 958	–	–
Trade and other payables	2 380	1 803	214	–	–	363
Total	7 006	1 845	429	4 368	1	363

(1) These amounts do not agree to the statement of financial position as these are the undiscounted contractual payments.
** Amount is less than R500 000*

R million	Total	<1 year	1 to 5 years	5 to 10 years	>10 years	Open ended
2010						
ASSETS						
At fair value through profit or loss:						
Listed:						
– Debt securities	233	6	131	40	56	–
– Money market securities	46	46	–	–	–	–
Unlisted:						
– Equity linked notes	5	–	–	–	–	5
– Money market securities	409	203	206	–	–	–
Available-for-sale financial assets:						
Listed:						
– Equity securities	1 330	3	–	–	–	1 327
– Debt securities	275	82	96	46	51	–
– Inflation linked securities	33	–	21	1	11	–
– Money market securities	31	31	–	–	–	–
Unlisted:						
– Equity securities	28	–	–	–	–	28
– Equity linked notes	56	–	–	–	–	56
– Debt securities	64	41	23	–	–	–
– Money market securities	308	308	–	–	–	–
Derivative financial instruments at fair value:						
– Hedges	111	46	65	–	–	–
Loans and receivables	1 875	1 584	274	9	5	3
Cash and cash equivalents	2 570	2 570	–	–	–	–
Total	7 374	4 920	816	96	123	1 419
LIABILITIES						
Borrowings(1)	25	25	–	–	–	–
Derivative financial instruments at fair value:						
– Non-hedges	12	4	8	–	–	–
Trade and other payables	1 678	1 410	256	–	–	12
Total	1 715	1 439	264	–	–	12

(1) These amounts do not agree to the statement of financial position as these are the undiscounted contractual payments.
** Amount is less than R500 000*

2. Management of insurance and financial risk CONTINUED

2.2.4 Shareholder financial assets and liabilities CONTINUED

Sensitivity analysis

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur, and changes in some of the assumptions may be correlated (for example, change in interest rate and change in market values).

Sensitivity analysis – interest rate risk

The table below details the specific interest rate risk applicable to shareholder financial assets:

R million	Carrying amount	Fixed	Floating	Non-interest bearing
2011				
ASSETS				
At fair value through profit or loss:				
– Equity securities	**32**	**–**	**1**	**31**
– Debt securities	**1 135**	**1 080**	**55**	**–**
– Inflation linked securities	**69**	**69**	**–**	**–**
– Money market securities	**518**	**484**	**34**	**–**
– Equity linked notes	**9**	**–**	**–**	**9**
Available-for-sale financial assets:				
– Equity securities	**585**	**574**	**11**	**–**
– Debt securities	**216**	**165**	**51**	**–**
– Inflation linked securities	**43**	**37**	**6**	**–**
– Money market securities	**1 242**	**92**	**1 128**	**22**
– Equity linked notes	**50**	**–**	**–**	**50**
Derivative financial instruments at fair value:				
– Hedges	**40**	**6**	**–**	**34**
– Non-hedges	**6**	**6**	*****	**–**
Loans and receivables	**2 258**	**–**	**139**	**2 119**
Cash and cash equivalents	**3 069**	**–**	**3 069**	**–**
Total	**9 272**	**2 513**	**4 494**	**2 265**
2010				
ASSETS				
At fair value through profit or loss:				
– Equity linked notes	5	–	–	5
– Debt securities	233	220	13	–
– Money market securities	455	265	190	–
Available-for-sale financial assets:				
– Equity securities	1 358	13	–	1 345
– Equity linked notes	56	–	–	56
– Debt securities	339	146	193	–
– Inflation linked securities	33	24	9	–
– Money market securities	339	64	223	52
Derivative financial instruments at fair value:				
– Hedges	111	3	4	104
Loans and receivables	1 875	3	231	1 641
Cash and cash equivalents	2 570	–	2 570	–
Total	7 374	738	3 433	3 203

** Amount is less than R500 000*

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

For shareholder investments an increase in 100 basis points in interest yields would result in a loss of R23 million (2010: loss of R22 million). A decrease in 100 basis points in interest yields would result in a profit of R26 million (2010: profit of R24 million).

This profit/loss would be recognised directly in the statement of comprehensive income.

Sensitivity analysis – equity risk

Discovery's shareholder exposure to equity risk is detailed on page 194.

For shareholder investments a 10% decrease in the equity markets would result in a loss of R50 million (2010: loss of R111 million). This loss would be recognised directly in the statement of comprehensive income.

A 10% increase in the equity markets would result in a similar equal but opposite amount to the above.

Sensitivity analysis – currency risk

Discovery has offshore assets in its shareholders' portfolios. These offshore investments were made for the purpose of seeking international diversification. There is a risk to future earnings that the value of these assets reduces due to a strengthening in the Rand. Performance of foreign currency assets is benchmarked against the Euro money market and MSCI World Equity Indices.

The table below segregates the currency exposure by major currency at 30 June:

R million	Total	Rand	USD	GBP	Euro	Japan	Other
2011							
ASSETS							
At fair value through profit or loss:							
Listed:							
– Equity securities	29	29	*	*	*	*	*
– Debt securities	1 135	1 135	–	–	–	–	–
– Inflation linked securities	69	69	–	–	–	–	–
– Money market securities	17	17	–	–	–	–	–
Unlisted:							
– Equity securities	3	*	3	–	–	–	–
– Equity linked notes	9	9	–	–	–	–	–
– Money market securities	501	501	–	–	–	–	–
Available-for-sale financial assets:							
Listed:							
– Equity securities	546	460	39	13	8	8	18
– Debt securities	172	118	20	2	31	*	1
– Inflation linked securities	43	43	–	–	–	–	–
– Money market securities	974	127	7	822	18	*	*
Unlisted:							
– Equity securities	39	3	36	–	–	–	–
– Equity linked notes	50	48	2	–	–	–	–
– Debt securities	44	44	–	*	*	–	–
– Money market securities	268	262	*	*	6	*	*
Derivative financial instruments at fair value:							
– Hedges	40	40	–	–	–	–	–
– Non-hedges	6	6	–	–	–	–	–
Loans and receivables	2 258	1 595	7	656	–	–	–
Cash and cash equivalents	3 069	1 663	139	1 267	–	–	–
	9 272	6 169	253	2 760	63	8	19
LIABILITIES							
Borrowings at amortised cost	402	402	–	–	–	–	–
Derivative financial instruments at fair value:							
– Hedges	12	12	–	–	–	–	–
– Non-hedges	10	10	–	–	–	–	–
Puttable non-controlling interests	2 314	273	324	1 717	–	–	–
Trade and other payables	2 380	1 049	482	849	–	–	–
Total	5 118	1 746	806	2 566	–	–	–

** Amount is less than R500 000*

2. Management of insurance and financial risk CONTINUED

2.2.4 Shareholder financial assets and liabilities CONTINUED

R million	Total	Rand	USD	GBP	Euro	Japan	Other
2010							
ASSETS							
At fair value through profit or loss:							
– Equity linked notes	5	5	–	–	–	–	–
– Debt securities	233	233	–	–	–	–	–
– Money market securities	455	455	–	–	–	–	–
Available-for-sale financial assets:							
– Equity securities	1 358	1 222	100	8	14	6	8
– Equity linked notes	56	47	9	–	–	–	–
– Debt securities	339	276	12	2	29	12	8
– Inflation linked securities	33	33	–	–	–	–	–
– Money market securities	339	311	1	27	–	–	–
Derivative financial instruments at fair value:							
– Hedges	111	67	–	43	–	–	1
Loans and receivables	1 898	1 418	26	454	–	–	–
Cash and cash equivalents	2 570	2 207	118	245	–	–	–
Total	7 397	6 274	266	779	43	18	17
LIABILITIES							
Borrowings at amortised cost	23	23	–	–	–	–	–
Derivative financial instruments at fair value:							
– Non-hedges	12	12	–	–	–	–	–
Trade and other payables	1 701	1 088	78	535	–	–	–
Total	1 736	1 123	78	535	–	–	–

The exchange rates at year-end are detailed in the table below (quoted as Rand per foreign currency):

	USD	GBP	Euro
30 June 2011	**6.77**	**10.84**	**9.80**
30 June 2010	7.66	11.48	9.39

Borrowings at amortised cost

Borrowings at amortised cost include a loan from FirstRand Bank Limited, in order to fund the acquisition of Standard Life Healthcare. Interest is charged at a fixed rate of 10.175% per annum and is paid quarterly. The loan is repayable on 10 September 2017. The fair value of the liability is R393 million at 30 June 2011.

In the prior year, borrowings included a finance lease in respect of land and buildings purchased in July 1998. The finance lease liability was paid in full in September 2010.

2.2.5 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Key areas where Discovery is exposed to credit risk are:

- Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid. This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The reinsurance companies used by Discovery are rated A or higher by A.M. Best.
- Financial assets comprising money market and debt instruments entered to match policyholders' liabilities and invest surplus shareholder funds. Discovery is exposed to the issuer's credit standing on these instruments. Discovery's exposure to credit risk is monitored by the SAIC by setting a minimum credit rating for these investments. Regulations in the various jurisdictions in which Discovery operates have the effect of limiting exposure to individual issuers due to the inadmissibility of assets if specified limits are breached. Discovery has appointed reputable asset managers to manage these instruments. Information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings is provided below.
- Certain accounts within the balance sheet category of loans and receivables. The management of this risk is discussed in detail on page 204.
- The credit risk on cash and cash equivalents is managed by monitoring exposure to external financial institutions against approved limits per institution. Credit ratings are provided on the next page.

- On some investment products Discovery issues a guaranteed policy to the policyholder and the asset is guaranteed by a third party. There is thus a risk to Discovery in the event of the third party defaulting. Credit risk is reduced by the choice and spread of third party providers.

Credit exposure for debt and money market instruments

The following table provides information regarding the aggregated credit risk exposure for debt and money market instruments categorised by credit ratings at 30 June:

R million	Total	AAA	AA+AA AA-	A+A A-	BBB BBB+	High yield	Govt	Not rated
2011								
ASSETS								
At fair value through profit or loss:								
– Debt securities	**1 135**	**37**	**99**	**14**	**11**	**–**	**974**	**–**
– Inflation linked securities	**69**	*****	*****	*****	**–**	**–**	**69**	**–**
– Money market securities	**518**	**94**	**343**	**77**	**4**	**–**	**–**	*****
– Equity linked notes	**9**	**9**	**–**	**–**	**–**	**–**	**–**	**–**
Available-for-sale financial assets:								
– Debt securities	**216**	**69**	**81**	**30**	**1**	**9**	**25**	**1**
– Inflation linked securities	**43**	**24**	**14**	**1**	**–**	**–**	**4**	**–**
– Money market securities	**1 242**	**56**	**689**	**171**	**314**	*****	**7**	**5**
– Equity linked notes	**50**	**50**	**–**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**3 069**	**8**	**1 001**	**909**	**1 131**	**–**	**3**	**17**
Total	**6 351**	**347**	**2 227**	**1 202**	**1 461**	**9**	**1 082**	**23**
2010								
ASSETS								
At fair value through profit or loss:								
– Debt securities	233	26	9	4	12	–	182	–
– Money market securities	455	20	190	80	163	–	2	–
– Equity linked notes	5	–	5	–	–	–	–	–
Available-for-sale financial assets:								
– Debt securities	339	189	71	35	3	12	28	1
– Money market securities	339	1	6	1	139	–	22	170
– Inflation linked securities	33	7	17	4	–	–	5	–
– Equity linked notes	56	–	56	–	–	–	–	–
Cash and cash equivalents	2 570	174	557	543	1 296	–	–	–
Total	4 030	417	911	667	1 613	12	239	171

** Amount is less than R500 000*

The credit ratings shown are the most conservative of Moody's, Fitch and S&P and have been provided in a Fitch format.

Credit risk relating to loans and receivables

Discovery's loans and receivables including insurance receivables at 30 June comprise:

R million	Ref	2011	2010
Premium debtors	1	**132**	83
Less provision for impairment of premium debtors		**(19)**	(44)
Reinsurance debtors (refer to page 202)		**703**	723
Other loans and receivables			
Agents and brokers	2	**181**	134
Closed scheme debtors	3	**28**	22
Discovery Health Medical Scheme	3	**366**	334
Joint venture loans	4	**–**	23
Loans to share trust participants		**138**	165
Prepayments		**75**	161
Prudential Assurance Company	5	**331**	119
Road accident fund claims	6	**41**	–
Standard Life Group		**29**	–
St Andrew's Group		**81**	19
Value-added tax		**4**	9
Other debtors		**279**	191
Less provision for impairment of other loans and receivables		**(100)**	(54)
Total		**2 269**	1 885

2. Management of insurance and financial risk CONTINUED

2.2.5 Credit risk CONTINUED

1. The balance of premium debtors are not rated by Discovery as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and corporates. In addition, Discovery suspends benefits when contributions are not received for three months. Premium debtors that are past due are handled by a specialist area in business. Where amounts remain uncollected for more than six months, the debtors are then handed to specialist debt collection agencies.

2. Agents and brokers are subject to a comprehensive relationship management programme including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission clawbacks are offset against future payments and hence the risk of outstanding commission is reduced.

3. The Discovery Health Medical Scheme (DHMS) has been rated AA+ by Global Credit Ratings. The closed schemes have not been rated. Payments by DHMS and the other closed schemes are managed by Discovery and are paid by the seventh of the following month.

4. Joint venture loans in the prior year, comprised the receivables from Discovery's joint venture companies, PruHealth and PruProtect, which were not eliminated on proportionate consolidation.

5. The Prudential Assurance Company has been rated AA by Fitch.

6. Road accident fund claims comprises amounts recoverable from the Road Accident Fund.

Discovery ages and pursues unpaid accounts on a monthly basis. The ageing of the components of loans and receivables at 30 June was:

R million	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	**2 121**	**(15)**	1 742	(5)
30 days	**60**	**(17)**	64	(12)
60 days	**20**	**(13)**	38	(21)
90 days	**12**	**(12)**	21	(13)
120 days	**22**	**(6)**	10	(1)
150 days	**18**	**(8)**	16	(7)
>150 days	**135**	**(48)**	92	(39)
Total	**2 388**	**(119)**	1 983	(98)

Discovery establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The movement in the provision for impairment during the year was as follows:

	R million
Balance at 1 July 2009	(110)
Increase in provision	(29)
Amounts utilised during the period	41
Balance at 30 June 2010	(98)
Increase in provision	**(31)**
Amounts utilised during the period	**10**
Balance at 30 June 2011	**(119)**

2.2.6 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities (i.e. insufficient cash available to meet commitments as and when due).

Discovery invests primarily in liquid financial assets as the following table illustrates. A substantial short-term liquidation (although considered highly unlikely) may result in current values not being realised due to demand supply principles. Liquidity is managed on a daily basis and is supervised by the Investment Committee on a monthly basis and the SAIC on a quarterly basis.

Financial asset liquidity	**2011** %	**2011** R million	2010 %	2010 R million
Liquid	**88**	**8 175**	93	6 822
Medium	**6**	**589**	3	266
Illiquid	**6**	**508**	4	286
	100	**9 272**	100	7 374

Liquid assets are considered to be realisable within one month. Listed equities are grouped as liquid assets.
Medium assets are considered to be realisable within six months.
Illiquid assets are considered to be realisable in excess of six months.

3. Critical accounting estimates and judgements in applying accounting policies

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

3.1 Business combinations

Where the Group acquires control of another business, the cost of the acquisition has to be allocated to the assets, liabilities and contingent liabilities of the acquired business, with any residual recorded as goodwill. This process involves management making an assessment of the fair value of these items. Management's judgement is particularly involved in the recognition and measurement of the following items:

- Intellectual property – This includes trademarks for currently marketed products.
- Intangible assets – This includes the value of in-force business and software purchased.
- Contingencies such as legal and environmental matters.
- Contingent consideration arrangements.
- The recoverability of any accumulated tax losses previously incurred by the acquired company.

In all cases management makes an assessment based on the underlying economic substance of the items concerned, and not only the contractual terms, in order to fairly present these items. (Refer to note 8 for a detailed description of Discovery's business combinations).

3.2 Goodwill and goodwill impairment

Following the acquisition of Standard Life Healthcare and the related capital restructure of the Prudential joint venture, as discussed in note 8, Discovery allocated GBP120.1 million to goodwill at 1 August 2010. The goodwill represents the value of future new business expected to be written by PruHealth and PruProtect and has been allocated between PruHealth and PruProtect based on management's estimate of the present value of future new business for each entity as at 31 July 2010.

The value of future PruHealth new business has been calculated as the present value of future after-tax profits of the business expected to be written in future. The after-tax profits in each future period are calculated as the earned premium multiplied by the net profit margin.

The value of future PruProtect new business has been calculated using an appraisal value methodology, where the value of future new business is calculated as a multiple of the value of new business written over the past year.

Based on the above valuations, GBP96.7 million and GBP23.4 million of the goodwill was allocated to PruHealth and PruProtect respectively as at 31 July 2010.

Recoverable amount of goodwill at 30 June 2011

There have been no changes to the operations of the PruHealth business over the past 11 months which would lead management to change their future new business cash flow assumptions. The present value of the after-tax profits from future new business has been adjusted as a result of a change in the valuation date. The PruProtect value of new business has been updated based on the results of the 30 June 2011 valuation. Management has therefore estimated that the recoverable amount of the goodwill at 30 June 2011 is GBP151 million in respect of PruHealth and GBP50 million in respect of PruProtect.

3. Critical accounting estimates and judgements in applying accounting policies CONTINUED

3.3 Unlisted investments

Discovery Life has invested in unlisted equity linked notes offered by BNP Paribas and Deutsche Bank AG in order to back unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery Life does, however, have procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since yesterday's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery Life in order to check if the price provided by the provider is correct.

3.4 Puttable non-controlling interest liability

During the financial year, put options were granted to the non-controlling interests of three of Discovery's subsidiaries. The put options entitle the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates.

The following put options were issued:

- Prudential has the option to sell its 25% shareholding in PHHL to Discovery, five years from 1 August 2010 or after each succeeding one year period, at the fair market value.
- Humana has the option to sell its 25% shareholding in TVG LLC to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount.
- The Discovery Insure preference shareholders have the option to sell its 25% shareholding in Discovery Insure to Discovery, four, five or seven years after acquisition, at the fair market value.

In accordance with IAS 32, Discovery has consolidated 100% of the subsidiaries results and has recognised the fair value of the non-controlling interest, being the present value of the estimated purchase price, as a financial liability in the statement of financial position (Puttable non-controlling interests). In raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings in the statement of changes in equity.

Interest is recorded in respect of this liability within finance charges using the effective interest rate method. The estimated purchase price is reconsidered at each reporting date and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price will be recorded in profit or loss.

The present value of the estimated purchase price is estimated using various valuation techniques as described below. In each case, the valuation techniques include assumptions in respect of future cash flow growth, future net asset growth and discount rates.

PruHealth Holdings

The puttable non-controlling interest liability is calculated as the present value of PAC's share of the fair market value, discounted from the expected option exercise date to 30 June 2011. For valuation purposes, it is assumed that the option will be exercised in 2020.

As specified in the contractual agreement, the fair market value for PruHealth is calculated as the projected tangible net asset value at the valuation date plus a value per life insured multiplied by the number of lives insured at the valuation date. The fair market value for PruProtect is calculated as the projected value of business at the valuation date plus the value of 3 years' new business.

The Vitality Group LLC

The puttable non-controlling interest liability is calculated as the present value of Humana's share of the fair market value less 15%, discounted from the expected option exercise date to 30 June 2011. For valuation purposes, it is assumed that the option will be exercised in 2020.

The fair market value is calculated as the projected tangible net asset value at the valuation date plus the present value of the projected future cash flows discounted to the valuation date.

Discovery Insure

The puttable non-controlling interest liability is calculated as the present value of the Capricorn Group's share of the fair market value discounted from the expected option exercise date to 30 June 2011. For valuation purposes, it is assumed that the option will be exercised in 2018.

The fair market value is calculated as the projected embedded value at the valuation date. The embedded value includes the value of business in-force at the valuation date (net of the cost of required capital) plus the projected net worth at the valuation date.

3.5 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts)

The insurance policies issued by Discovery Life are valued using various methodologies and assumptions. The methodology is described in the accounting policies on pages 153 to 156. The assumptions used are best estimate assumptions, with the addition of explicit compulsory margins required by PGN 104 of the Actuarial Society of South Africa and the discretionary margins described on page 154 of the accounting policies. The process used to decide on best-estimate assumptions is described on the next page:

Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date.

The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2011.

Mortality and morbidity

Assumptions of future mortality and morbidity experience are derived based on data from reinsurers and compared to actual past experience. Where appropriate, the assumptions are adjusted to reflect actual past experience or for expected changes in future experience.

The assumptions are modified for each policy based on actual data available from underwriting performed on the policy.

The assumptions are compared against standard industry tables for reasonability. The key mortality and morbidity assumptions are reviewed and benchmarked against the industry by independent actuarial consultants to ensure that the assumptions are reasonable, upon implementation of significant new products.

An allowance is made for the impact of AIDS. This is described in detail under the AIDS assumption below.

Surrender and lapse rates

Surrender and lapse rates are based on actual past experience where available. The lapse analysis is done by considering the in-force duration of policies. For durations longer than existing actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice. The lapse experience investigation covers at least the last two years of lapse experience to allow trends to be identified.

Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly. Allowance is made for the estimated impact of the economic environment.

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates.

The current and expected future tax position of each policyholder's tax fund is taken into account in setting the tax assumption.

The individual policyholders' fund (IPF) is currently in an excess expense (XE) position and hence no tax is payable on the interest earned on policyholders' funds within the IPF. Consequently, no allowance is made for tax relief on expenses within the IPF. Current forecasts are that the IPF will remain in an XE position. No deferred tax is raised for the XE position.

Deferred tax arises on the other timing differences between the accounting basis and the tax basis.

It is assumed that future tax will be payable at the prevailing company tax rate of 28% (2010: 28%).

Economic assumptions/Investment returns

The discount rate is set equal to the estimate of the risk-free investment return rate. The risk-free rate is calculated with reference to the risk-free yield curve. A single risk-free rate is then derived appropriate to the weighted duration of the cash flows and rounded to the nearest quarter of a percent. The risk-free rate at 30 June 2011 was set at 9% pa (2010: 9% pa).

Other investment returns and economic assumptions are set relative to this yield. The assumptions are as follows:

Cash	Risk free -1.5%
Fixed interest	Risk free
Equity	Risk free +3.5%
Consumer price inflation	Risk free -4%

The investment fees and tax rates are taken into account in setting the economic assumptions.

Expense assumptions

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

The allocation of expenses between initial and renewal expenses is based on the latest expense analysis where expenses are directly allocated based on the function performed. Where an expense could relate to both initial and renewal functions, the expenses are allocated proportionately based on estimates of the functions performed.

Per policy expenses are projected to increase in line with consumer price inflation.

Non-recurring expenses are excluded from the expense analysis used to derive the assumption.

3. Critical accounting estimates and judgements in applying accounting policies CONTINUED

3.5 Policyholder liabilities assumptions and estimates (including assets arising from insurance contracts) CONTINUED

HIV/AIDS

For individual business a fixed loading is applied to the expected best estimate mortality rates to allow for the expected effect of AIDS. The loading varies based on socio-economic class. An HIV test is required for all individual policies with lump sum life cover. Discovery Life further operates in the high end of the market where the AIDS risk is lower compared to the full market. The additional loading for AIDS is set in consultation with external independent actuaries and reinsurers.

For Group policies a loading is applied at the underwriting stage to allow for the expected effect of AIDS. The loading varies based on the industry and geographic area and composition of the Group and is derived from advice received from the reinsurers. The loading then forms the AIDS assumption for Group policies.

Reinsurance

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and incurred but not reported claims liabilities (IBNR), a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependent on the cost at which the reinsurer can hedge the liabilities under this benefit. Assumptions are made around the cost at which the reinsurer can hedge the benefits, based on current and historic costs of the hedging structures.

Automatic premium increases

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts. Contractual premium increases are defined as increases that cannot be cancelled by the policyholder without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

Policy alterations

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

Changes in assumptions

Assumptions and methodologies are reviewed during each valuation. The impact of changes in the assumptions is reflected in profit or loss as the changes occur.

Modelling and assumptions changes were made to the valuation at 30 June 2011 to ensure that assumptions are in line with the best estimate of future experience. The total effect of these changes was an increase in the liabilities on the Financial Soundness Valuation basis of R196.3 million (2010: R50.4 million increase).

In addition to this, the discretionary margins were reset to reflect the underlying profitability of the overall portfolio. The reset of margins decreased the liabilities on the Financial Soundness Valuation basis by R420.2 million (2010: R781.6 million decrease). See note 4 for an analysis of these changes.

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out on page 183.

Financial risks are risks arising from exposure to financial instruments at reporting date. Financial instruments include all assets and liabilities, but exclude investments in subsidiary and associated companies, property and equipment, intangible assets, deferred income tax, deferred revenue, provisions and assets and liabilities of insurance operations. The financial risks that Discovery is exposed to are market risk, credit risk and liquidity risk (Refer to note 2.2).

Insurance risks relate to the likelihood that emerging experience will lead to variances on the value placed on assets/liabilities under insurance contracts. Insurance risks are detailed on pages 172 to 189.

4. Assets arising from insurance contracts

R million	Group 2011	Group 2010
Long-term insurance contracts – gross	**9 044**	7 076
Less: recovery from reinsurers (refer to note 17)	**(728)**	(532)
Long-term insurance contracts – net	**8 316**	6 544
Current	**1 027**	905
Non-current	**8 958**	6 688
Variable	**(1 669)**	(1 049)
	8 316	6 544
Movement in assets arising from insurance contracts		
Balance at beginning of year	**6 544**	5 087
Acquisition of business	**179**	–
Movement for the year:		
Expected movement in policyholder liabilities	**(1 451)**	(1 389)
Unwinding of discount rate	**753**	556
New business written	**1 642**	1 301
Experience variances	**397**	394
Economic	**(101)**	74
Operational	**498**	320
Modelling and method changes	**(195)**	(50)
Benefit enhancements	**37**	(140)
Changes in assumptions	**(153)**	1 971
Economic	**(17)**	24
Operational	**(94)**	(612)
Premium and benefit increase assumptions	**(42)**	2 559
Changes in margins	**172**	(1 961)
Margins related to premium and benefit increase assumption	**42**	(2 559)
Other margin changes	**130**	598
Exchange rate difference	**(29)**	(7)
Margin reset[(1)]	**420**	782
Balance at end of year	**8 316**	6 544

(1) In line with accounting policy 14.1, the best estimate and margins are reset at every valuation date to reflect the underlying profitability of the overall portfolio. As margins are not set on new business in isolation, an acquisition cost loss arises which is funded by the margin reset on the total portfolio.

5. Property and equipment

R million	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improvements	Motor vehicles	Total
Year ended 30 June 2010					
Opening carrying amount	75	56	64	4	199
Additions	24	13	54	3	94
Depreciation charge	(24)	(33)	(14)	(2)	(73)
Closing carrying amount	75	36	104	5	220
At 30 June 2010					
Cost	261	490	156	13	920
Accumulated depreciation	(186)	(454)	(52)	(8)	(700)
Carrying amount	75	36	104	5	220
Year ended 30 June 2011					
Opening carrying amount	**75**	**36**	**104**	**5**	**220**
Acquisition of businesses	**6**	**–**	**–**	**–**	**6**
Exchange differences	*****	*****	*****	**–**	*****
Additions	**7**	**24**	**8**	**4**	**43**
Disposals					**–**
– Cost	**(2)**	**–**	**–**	**(4)**	**(6)**
– Accumulated depreciation	**–**	**–**	**–**	**3**	**3**
Depreciation charge	**(26)**	**(17)**	**(20)**	**(3)**	**(66)**
Fully depreciated assets written-off					
– Cost	**(107)**	**(368)**	**(7)**	**(1)**	**(483)**
– Accumulated depreciation	**107**	**368**	**7**	**1**	**483**
Closing carrying amount	**60**	**43**	**92**	**5**	**200**
At 30 June 2011					
Cost	**164**	**143**	**157**	**12**	**476**
Accumulated depreciation	**(104)**	**(100)**	**(65)**	**(7)**	**(276)**
Carrying amount	**60**	**43**	**92**	**5**	**200**

** Amount is less than R500 000*

6. Investment property

R million	Group 2011	Group 2010
Year ended 30 June		
Opening carrying amount	**19**	20
Disposals		
– Cost	**(27)**	–
– Accumulated depreciation	**9**	–
Depreciation charge	**(1)**	(1)
Closing carrying amount	**–**	19
At 30 June		
Cost	**–**	27
Accumulated depreciation	**–**	(8)
Carrying amount	**–**	19
Fair value	**–**	117

The investment property, which is located in Sandton, was sold for R140 million during the current financial year.

7. Intangible assets including deferred acquisition costs

R million	Software	Exclusivity rights[(1)]	Deferred acquisition costs: Investment management contracts	Deferred acquisition costs: Insurance contracts[(2)]	Business acquisitions[(3)]: Customer contracts	Business acquisitions[(3)]: Prudential brand	Total
Year ended 30 June 2010							
Opening carrying amount	183	–	309	28	–	–	520
Foreign currency adjustment on translation	–	–	–	(3)	–	–	(3)
Additions	111	10	48	53	–	–	222
Amortisation charge	(113)	(3)	–	–	–	–	(116)
Deferred acquisition costs amortised	–	–	(245)	(53)	–	–	(298)
Closing carrying amount	181	7	112	25	–	–	325
At 30 June 2010							
Cost	510	10	112	25	–	–	657
Accumulated amortisation	(329)	(3)	–	–	–	–	(332)
Carrying amount	181	7	112	25	–	–	325
Year ended 30 June 2011							
Opening carrying amount	**181**	**7**	**112**	**25**	**–**	**–**	**325**
Acquisition of businesses	**98**	**–**	**–**	**116**	**962**	**179**	**1 355**
DAC derecognised on acquisition of businesses	**–**	**–**	**–**	**(137)**	**–**	**–**	**(137)**
Foreign currency adjustment on translation	**(4)**	**–**	**–**	**(7)**	**(47)**	**(9)**	**(67)**
Intangible asset derecognised	**–**	**(7)**	**–**	**–**	**–**	**–**	**(7)**
Additions	**110**	**–**	**89**	**240**	**–**	**–**	**439**
Disposals							
– Cost	**(26)**	**–**	**–**	**–**	**–**	**–**	**(26)**
Amortisation charge	**(204)**	**–**	**–**	**–**	**(87)**	**(10)**	**(301)**
Deferred acquisition costs amortised	**–**	**–**	**(28)**	**(113)**	**–**	**–**	**(141)**
Closing carrying amount	**155**	**–**	**173**	**124**	**828**	**160**	**1 440**
At 30 June 2011							
Cost	**558**	**3**	**173**	**124**	**912**	**170**	**1 940**
Accumulated amortisation	**(403)**	**(3)**	**–**	**–**	**(84)**	**(10)**	**(500)**
Carrying amount	**155**	**–**	**173**	**124**	**828**	**160**	**1 440**

(1) In the prior financial year, Discovery Third Party Recovery Services (DTPRS) purchased the exclusive right to pursue up to 50% of the pre-August 2008 road accident fund claims, on behalf of the Discovery Health Medical Scheme (DHMS). Any recoveries would be shared equally between DTPRS and DHMS.

In the current financial year, DTPRS purchased all the risks and rewards of ownership of all the pre-August 2008 road accident fund claims from DHMS. Based on this transaction, this intangible asset has been derecognised. The full amount has now been disclosed as a receivable. Refer to note 12.

(2) This intangible asset relates to health insurance contracts only.

(3) For details of intangible assets recognised on acquisition of businesses refer to note 8.

8. Business combinations

8.1 Standard Life Healthcare, PruHealth and PruProtect

On 31 July 2010, Discovery acquired the entire share capital of Standard Life Healthcare (SLHC), previously a wholly-owned subsidiary of the Standard Life Group, for R1.56 billion (GBP137.8 million).

Discovery's joint venture with PAC has created a strong foothold in both the health insurance and protection markets in the United Kingdom. The acquisition of SLHC is likely to accelerate the attainment of both PruHealth and PruProtect's UK strategies. In health insurance, where scale is important, the acquisition created a new competitor covering approximately 700 000 lives and attracting annual premiums of R4.1 billion (GBP370 million). In addition, the acquisition will provide PruHealth with opportunities to sell Vitality into SLHC's existing client base. In the protection market, SLHC's large, high-quality client base provides growth opportunities for PruProtect, and enhances Discovery's ability to implement its integrated model in the UK.

Discovery funded the entire purchase consideration by using R1.16 billion from its own internal funds (dividend from Discovery Life) and through raising debt of R400 million. Discovery then contributed SLHC to PruHealth Holdings Limited (PHHL) as a capital investment. PHHL is the holding company of PruHealth and PruProtect, the joint ventures between Discovery and Prudential Assurance Company of the United Kingdom. This resulted in Discovery increasing its interest in both PruHealth and PruProtect from 50% to 75%.

In terms of IFRS 3 revised: Business Combinations, the increase in Discovery's interest from 50% (a joint venture) to 75% (a subsidiary) is effectively treated as two separate transactions, that is, the disposal of the 50% interest and a subsequent acquisition of 75% interest. The purchase price for the increased shareholding must be used to calculate the deemed disposal consideration for the disposal of the 50% interest. Any resulting profit or loss (in this case profit) must be included in the earnings of the Group but is excluded from headline earnings. Using the GBP137.8 million that Discovery invested into PHHL to increase its shareholding by 25%, the deemed disposal consideration for the 50% interest is GBP69 million. Discovery has reflected a profit of R667 million in its earnings for the year ended 30 June 2011, which has been excluded from headline earnings.

For the 75% deemed subsequent acquisition, IFRS 3 revised states that this should be treated as if it was an independent acquisition at that time and requires the purchase price be allocated to the tangible assets and liabilities and to the intangible assets acquired. The balance is allocated to goodwill. The purchase price for the acquisition of SLHC and the deemed purchase price for the 75% of PHHL must be allocated in this manner and the appropriate portions allocated to non-controlling interest. In addition, for this purpose, assets must be valued on an arm's length basis to third parties, and should not take into account Discovery's intentions post the acquisition.

Discovery has allocated the purchase price as follows:

Allocation of the purchase price for 75% of PHHL

	GBP million	R million*
Tangible net asset value:		
– Property and equipment	**0.2**	**2**
– Loans and receivables including insurance receivables	**52.0**	**564**
– Reinsurance assets	**4.2**	**45**
– Cash and cash equivalents	**195.5**	**2 119**
– Liabilities arising from insurance contracts	**(12.8)**	**(139)**
– Liabilities arising from reinsurance contracts	**(8.6)**	**(93)**
– Borrowings at amortised cost	**(29.7)**	**(322)**
– Trade and other payables	**(85.8)**	**(930)**
Intangible assets:		
– Assets arising from insurance contracts	**36.8**	**399**
– Value of in-force business	**36.1**	**391**
– Prudential brand	**15.7**	**170**
– Deferred tax liability raised in respect of intangible assets	**(14.5)**	**(157)**
Goodwill	**86.9**	**942**
Non-controlling interest (refer to note 20 regarding puttable non-controlling interests)	**(69.0)**	**(748)**
Deemed consideration paid	**207.0**	**2 243**

** Translated at closing rate at 30 June 2011, which is the rate they are included in the statement of financial position.*

Allocation of the purchase price for 100% of SLHC

	GBP million	R million*
Tangible net asset value:		
– Property and equipment	**0.4**	**4**
– Money market investments	**130.7**	**1 416**
– Loans and receivables including insurance receivables	**2.1**	**23**
– Deferred income tax	**3.6**	**39**
– Reinsurance assets	**3.6**	**39**
– Cash and cash equivalents	**15.2**	**165**
– Liabilities arising from insurance contracts	**(68.2)**	**(739)**
– Deferred revenue	**(0.8)**	**(9)**
– Trade and other payables	**(22.8)**	**(247)**
Intangible assets:		
– Value of in-force business	**48.1**	**521**
– Software	**8.6**	**93**
– Deferred tax liability raised in respect of intangible assets	**(15.9)**	**(172)**
Goodwill	**33.2**	**360**
Consideration paid	**137.8**	**1 493**

** Translated at closing rate at 30 June 2011, which is the rate they are included in the statement of financial position.*

The intangible assets identified in the tables above have been included in the statement of financial position of the Group. These intangible assets will be amortised over their remaining useful lives and tested for impairment at each reporting date. Discovery has recorded an amortisation charge of R97 million in profit or loss for the period 1 August 2010 to 30 June 2011 for these intangible assets.

The value of in-force business, being the value for the existing customer contracts at the date of acquisition, was calculated using a discounted cash flow model which is similar to an embedded value model and is being amortised on the basis of unwinding of the modelled cash flows.

At acquisition, a decision was taken that the computer software acquired as part of the SLHC acquisition will not be used by Discovery and accordingly the value of GBP8.6 million (R95 million) was written-off. Discovery is however reconsidering its decision and is in the process of determining whether the software can be integrated into the business.

The goodwill, which represents the value of future business expected to be written by the PHHL Group, is not amortised, but is assessed for possible impairment at each reporting date and the impairment is recorded in profit or loss, if necessary. At 30 June 2011, Discovery calculated the value in use of PruHealth and PruProtect and there was no indication that goodwill is impaired at this date.

Reconciliation of goodwill

	GBP million	R million
Goodwill recognised from the purchase of PHHL	**86.9**	**992**
Goodwill recognised from the purchase of SLHC	**33.2**	**379**
Net exchange differences arising during the period		**(69)**
Goodwill at 30 June 2011	**120.1**	**1 302**

Gains and losses resulting from business combinations

The following gains and losses resulting from the business combinations described above have been included in the Group's income statement at 30 June 2011:

R million	Gross	Tax	Net
Gain recognised on disposal of joint venture	**667**	**–**	**667**
Write-off of software	**(95)**	**27**	**(68)**
Excluded from headline earnings	**572**	**27**	**599**
Amortisation of intangibles	**(97)**	**27**	**(70)**
DAC balance not recognised at acquisition	**137**	**–**	**137**
Once-off costs relating to acquisition	**(58)**	**–**	**(58)**
Recapture of reinsurance	**(313)**	**–**	**(313)**
Total adjustments to earnings to arrive at normalised earnings	**241**	**54**	**295**

8. Business combinations CONTINUED

8.1 Standard Life Healthcare, PruHealth and PruProtect CONTINUED

In the process of completing the acquisition, Discovery incurred once-off costs such as investment banking fees, legal costs and other consulting fees.

No value was placed on the DAC balance at acquisition. This resulted in the accounting profit being R137 million higher than it would have been had the DAC been valued at that date and amortised in the current accounting period.

Recapture of reinsurance

The business combinations discussed above resulted in a need for Discovery to restructure the capital of PHHL and PruHealth. SLHC had surplus capital and PruHealth had reinsurance obligations, some of which was not required for the combined businesses.

PruHealth therefore undertook the recapture of approximately GBP28 million of reinsurance obligations which resulted in a R313 million charge to Discovery's income statement.

Post-acquisition revenue and profit or loss of acquired entities

The table below discloses the post-acquisition revenue and profit or loss that has been included in the Group's income statement at 30 June 2011:

R million	UK Health	UK Life
Revenue	**3 772**	**340**
Profit/(loss) after tax (100%)	**84**	**(21)**

Revenue and profit or loss of acquired entities from 1 July 2010

The table below discloses the revenue and profit or loss that would have been included in the Group's income statement at 30 June 2011, if the acquisition date was 1 July 2010:

R million	UK Health	UK Life
Revenue	**4 123**	**360**
Profit/(loss) after tax (100%)	**60**	**(32)**

8.2 The Vitality Group LLC

In February 2011, Discovery announced a joint venture between The Vitality Group Inc. in the United States (TVG Inc.) and Humana, the fourth-largest health insurer in the United States. Through this partnership arrangement two new entities were formed, namely The Vitality Group LLC (TVG LLC) and Humana Vitality LLC (refer to note 9.2). The effective date of this agreement was 16 May 2011.

TVG Inc. has a 75% holding in TVG LLC with the balance being held by Humana. TVG Inc. contributed its existing business as at 1 May 2011 as its capital contribution, the net asset value at that date being US$15 million. Humana contributed US$15 million in cash for its 25% shareholding. At 30 June 2011, the fair value of Humana's contribution has been calculated as US$7.5 million, being 25% of the total capital contributions. This fair value adjustment of US$7.5 million (R51 million) has been disclosed in the statement of changes in equity as an adjustment against non-controlling interest and retained earnings. TVG LLC has been accounted for as a subsidiary in the results of Discovery.

9. Investment in associates

9.1 Ping An Health Insurance Company of China, Ltd (PAH)

Discovery paid R225 million for the acquisition of 20% of the share capital of PAH. PAH has been treated as an associate in the results of Discovery and as such, 20% of the losses incurred for the six months to 30 June 2011 has been included in the income statement and Discovery's share of PAH's net asset value at 30 June 2011 has been included in the statement of financial position in Investment in associates.

The amount included in Investment in associates is analysed as follows:

	RMB million	R million
20% of net asset value at date of purchase	135	159
Goodwill	56	66
Consideration paid	191	225
20% of movement in net asset value for six months to 30 June 2011		
– losses for the period	(4)	(4)
– movement in revaluation reserve	(2)	(2)
Net exchange differences arising during the period		(43)
Investment in associate at 30 June 2011	185	176

9.2 The Vitality Group LLC

As discussed in note 8.2, a second entity namely Humana Vitality LLC (HV) was formed through the TVG Inc. and Humana joint venture.

Humana has a 75% shareholding in HV, with the balance being held by TVG Inc. Humana contributed US$50 million for its 75% shareholding. TVG Inc. contributed a perpetual royalty-free licence to the Vitality IT systems, the Vitality name and associated marks and a perpetual, royalty-free licence to the Vitality intellectual property, exclusively for use in the United States. This contribution has been valued at US$12.5 million and has been disclosed as a realised gain from the disposal of intellectual property in the income statement and as an Investment in associate in the statement of financial position.

As part of the contract between Humana and TVG Inc., Humana has guaranteed a profit to TVG Inc. in respect of TVG LLC of US$1 million in the first year and US$2 million in both years two and three, regardless of the actual profit or loss incurred. As TVG Inc. has to provide services and support to TVG LLC over the period, the guaranteed income is being recognised to profit or loss on an accrual basis. The income has been disclosed in share of loss from associates in the income statement and as a debtor in the statement of financial position as it will be settled on a cash basis.

The amount included in Investment in associates is analysed as follows:

	US$ million	R million
Fair value of Vitality intellectual property	16.7	114
Less: downstream unrealised gains	(4.2)	(27)
Deemed consideration paid	12.5	87
Net exchange differences arising during the period		(3)
Investment in associate at 30 June 2011	12.5	84

9.3 Aggregate financial information of associates

Total Investment in associates at 30 June:

R million	2011
Ping An Health	176
Humana Vitality	84
	260

9. Investment in associates CONTINUED

9.3 Aggregate financial information of associates CONTINUED

The aggregate financial information of equity accounted associates is set out below. The amounts disclosed are 100% of the entities results and include the share of results from date of acquisition.

R million	2011
Revenue	50
Profit/(loss)	(20)
Total assets	1 329
Total liabilities	(260)
Shareholders' funds	1 069

10. Financial assets – investments

The Group's investment in financial assets are summarised by measurement category in the table below:

R million	Group 2011	Group 2010
Available-for-sale financial assets:	2 136	2 125
– Equity securities	585	1 358
– Equity linked notes[1]	50	56
– Debt securities	216	339
– Inflation linked securities	43	33
– Money market securities	1 242	339
Financial assets at fair value through profit or loss:	10 447	5 863
– Equity securities	2 882	1 534
– Equity linked notes[1]	4 692	2 805
– Debt securities	1 319	375
– Inflation linked securities	116	35
– Money market securities	1 438	1 114
Total investments	12 583	7 988
Current portion	2 324	1 406
Non-current portion	2 050	829
Variable[2]	8 209	5 753
	12 583	7 988
Listed	6 134	3 753
Unlisted	6 449	4 235
	12 583	7 988

(1) The equity linked notes are unlisted Rand denominated investments providing equity exposure together with either a floor of 80% of the highest price observed since inception or a return after five years based on the best of three different unit trusts or indices.

(2) There is no maturity profile for equity securities and equity linked notes as management is unable to provide a reliable estimate given the volatility of equity markets and policyholder behaviour.

11. Derivative financial instruments

R million	Group 2011 Assets	Group 2011 Liabilities	Group 2010 Assets	Group 2010 Liabilities
Phantom share scheme – cash flow hedge	**5**	**9**	11	–
Phantom share scheme – fair value hedge	**35**	**3**	49	–
Forward exchange contracts – cash flow hedge	**–**	**–**	38	–
Forward exchange contracts – fair value hedge	**–**	**–**	6	–
Collar options	**–**	**–**	–	1
Non-hedge derivatives	**6**	**10**	7	11
	46	**22**	111	12
Current portion	**36**	**1**	36	4
Non-current portion	**10**	**21**	75	8
	46	**22**	111	12

Please refer to page 194 for a detailed description of the derivative financial instruments listed above.

12. Loans and receivables including insurance receivables

R million	Group 2011	Group 2010
Receivables arising from insurance and reinsurance contracts:		
– Premium debtors	**132**	83
– Less provision for impairment of premium debtors	**(19)**	(44)
– Reinsurance debtors	**703**	723
Other loans and receivables:		
– Agents and brokers	**181**	134
– Closed scheme debtors	**28**	22
– Discovery Health Medical Scheme	**366**	334
– Discovery unit trust debtors	**12**	14
– Joint venture loans	**–**	23
– Loans to share trust participants	**138**	165
– Prepayments	**75**	161
– Prudential Assurance Company	**331**	119
– Road accident fund claims	**41**	–
– Standard Life Group	**29**	–
– St Andrew's Group	**81**	19
– Value-added tax	**4**	9
– Other debtors	**267**	177
– Less provision for impairment of other loans and receivables	**(100)**	(54)
Total loans and receivables	**2 269**	1 885
Current portion	**1 993**	1 594
Non-current portion	**276**	291
	2 269	1 885

The directors believe that the fair value approximates the carrying value of the loans and receivables.

13. Reinsurance contracts

Reinsurers' share of insurance contract liabilities	**180**	121
Current	**180**	121

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in Loans and receivables (refer to note 12).

14. Cash and cash equivalents

Cash at bank and in hand	**727**	1 025
Short-term deposits	**2 558**	1 820
	3 285	2 845

The effective interest rate on short-term deposits was 5.69% (2010: 7.16%) and the average maturity 18 days (2010: 21 days).

15. Share capital and share premium

15.1 Ordinary share capital and share premium

	Number of shares	Ordinary shares R million	Share premium R million	Treasury shares R million	Total R million
At 1 July 2009	553 643 964	1	1 570	(23)	1 548
Employee share option scheme:					
– Proceeds from share issues	694 960	*	*	–	*
Treasury share purchases	(401 405)	–	–	(13)	(13)
Realised gains from share trust treasury shares	–	–	6	–	6
At 30 June 2010	553 937 519	1	1 576	(36)	1 541
Employee share option scheme:					
– Proceeds from share issues	**1 313 258**	*	*	–	*
Treasury share purchases	**(394 510)**	–	–	**(16)**	**(16)**
Treasury share deliveries	**200 000**	*	–	–	*
Treasury shares cancelled	**(80 790)**	*	–	–	*
Realised gains from share trust treasury shares	–	–	**17**	–	**17**
At 30 June 2011	**554 975 477**	**1**	**1 593**	**(52)**	**1 542**

** Amount is less than R500 000*

The total authorised number of ordinary shares is 1 billion (2010: 1 billion), with a par value of 0.1 cent per share.

15.2 Discovery Holdings share incentive trusts and BEE transaction

	2011 Shares	2010 Shares
Number of ordinary shares allocated at beginning of year	**37 335 393**	37 628 948
Number of ordinary shares purchased by BEE participants	**394 510**	401 405
Number of ordinary shares delivered to BEE participants	**(200 000)**	–
Number of ordinary shares delivered to participants during the year	**(1 313 258)**	(694 960)
Number of ordinary shares allocated at end of year	**36 216 645**	37 335 393

For more details regarding the trusts refer to note 33.

16. Liabilities arising from insurance contracts

R million	Group 2011	Group 2010
Gross		
Short-term liabilities:		
– claims reported and loss adjustment expenses	**1 700**	1 162
– claims incurred but not reported	**626**	266
– unearned premiums	**430**	31
Long-term liabilities:		
– unit-linked insurance contracts	**4 454**	2 656
– with fixed and guaranteed terms	**3 411**	2 083
Total liabilities arising from insurance contracts, gross	**10 621**	6 198
Recoverable from reinsurers		
Short-term liabilities:		
– claims incurred but not reported	**(180)**	(121)
Total reinsurers' share of liabilities arising from insurance contracts (refer to note 13)	**(180)**	(121)
Net		
Short-term liabilities:		
– claims reported and loss adjustment expenses	**1 700**	1 162
– claims incurred but not reported	**446**	145
– unearned premiums	**430**	31
Long-term liabilities:		
– unit-linked insurance contracts	**4 454**	2 656
– with fixed and guaranteed terms	**3 411**	2 083
Total liabilities arising from insurance contracts, net	**10 441**	6 077
Current portion	**2 717**	1 024
Non-current portion	**2 556**	2 194
Variable (1)	**5 168**	2 859
	10 441	6 077

(1) There is no maturity profile for these liabilities as this will depend on policyholder behaviour. Contractually policyholders may disinvest on demand.

Movements in the liabilities are as follows:

	2011			2010		
R million	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reported and loss adjustment expenses						
Notified claims	**1 162**	**–**	**1 162**	1 012	–	1 012
Incurred but not reported	**266**	**(121)**	**145**	274	(142)	132
Balance at beginning of year	**1 428**	**(121)**	**1 307**	1 286	(142)	1 144
Acquisition of businesses	**52**	**(24)**	**28**	–	–	–
Cash paid for claims settled in the year	**(372)**	**1**	**(371)**	(383)	43	(340)
Increase/(decrease) in liabilities:						
– arising from current year claims	**1 223**	**(39)**	**1 184**	728	(26)	702
– arising from prior year claims	**8**	**–**	**8**	(194)	–	(194)
Net exchange differences	**(13)**	**3**	**(10)**	(9)	4	(5)
Total at end of year	**2 326**	**(180)**	**2 146**	1 428	(121)	1 307
Notified claims	**1 700**	**–**	**1 700**	1 162	–	1 162
Incurred but not reported	**626**	**(180)**	**446**	266	(121)	145
Total at end of year	**2 326**	**(180)**	**2 146**	1 428	(121)	1 307
Provisions for unearned premiums						
Balance at beginning of year	**31**	**–**	**31**	27	–	27
Acquisition of businesses	**512**	**–**	**512**	–	–	–
Increase/(release) in the year	**(87)**	**–**	**(87)**	7	–	7
Net exchange differences	**(26)**	**–**	**(26)**	(3)	–	(3)
Total at end of year	**430**	**–**	**430**	31	–	31

16. Liabilities arising from insurance contracts CONTINUED

Movements in the liabilities CONTINUED:

R million	Group 2011	Group 2010
Long-term insurance contracts		
Unit-linked insurance contracts		
Balance at beginning of year	**2 656**	–
Transfer from investment contract liabilities	**–**	1 865
Purchases	**2 363**	1 073
Realised income	**52**	33
Unrealised income	**407**	145
Withdrawals	**(414)**	(204)
Fees	**(100)**	(53)
Insurance liability	**(510)**	(203)
Balance at end of year	**4 454**	2 656
With fixed and guaranteed terms		
Balance at beginning of year	**2 083**	465
Expected movement in policyholder liabilities	**(128)**	(36)
Unwinding of discount rate	**178**	42
New business written	**1 294**	1 586
Change in assumptions	**(16)**	26
Balance at end of year	**3 411**	2 083

17. Liabilities arising from reinsurance contracts

R million	Group 2011	Group 2010
Lapse risk treaties	**580**	628
Reinsurance recoveries relating to assets arising from insurance contracts (refer to note 4)	**728**	532
	1 308	1 160
Balance at beginning of year	**1 160**	1 104
Acquisition of businesses	**45**	–
Increase in liability	**111**	65
– Accrual	**390**	264
– Premiums paid included in reinsurance premiums	**(279)**	(199)
Premiums paid in the year	**(2)**	(3)
Exchange differences	**(6)**	(6)
Balance at end of year	**1 308**	1 160
Current	**289**	165
Non-current	**1 019**	995
	1 308	1 160

18. Investment contracts at fair value through profit or loss

The movements during the year were as follows:

R million	Group 2011	Group 2010
Balance at beginning of year	**1 544**	2 161
Investment contract liabilities transferred to insurance contract liabilities	**–**	(1 865)
Premiums received	**1 146**	1 669
Fees deducted from account balances	**(9)**	(10)
Account balances paid on withdrawal and other terminations in the year	**(670)**	(586)
Fair value adjustment	**52**	175
Balance at end of year	**2 063**	1 544
Variable [(1)]	**2 063**	1 544

(1) There is no maturity profile for these liabilities as this will depend on policyholder behaviour. Contractually, policyholders may disinvest on demand.

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and money market securities. The Group communicates the actual performance of these contracts to its contract holders.

19. Borrowings at amortised cost

R million	Group 2011	Group 2010
Bank borrowings	**402**	–
Finance lease liability	**–**	23
	402	23
Current	**2**	23
Non-current	**400**	–
	402	23

Bank borrowings

In order to fund the acquisition of Standard Life Healthcare, Discovery borrowed R400 million from FirstRand Bank Limited. The salient terms of the loan are the following:

– Lender:	FirstRand Bank Limited
– Type of borrowings:	Senior debt
– Interest rate:	Fixed rate of 10.175% per annum
– Security:	Pledge of shares in Discovery Life Limited
– Maturity date:	10 September 2017
– Callable/Convertible:	Not applicable

The borrowings are repayable on maturity. Interest is paid quarterly.
The fair value at 30 June 2011 was R393 million.

Finance lease liability

The finance lease was in respect of land and buildings purchased in July 1998. The effective interest rate on the lease was at 25% per annum. The finance lease liability was paid in full in September 2010.

The minimum lease payments are as follows:		
Not later than one year	**–**	25
Later than one year and not later than five years	**–**	–
	–	25
Future finance charges on finance lease	**–**	(2)
Finance lease liability	**–**	23

20. Puttable non-controlling interests

During the financial year, put options were granted to the non-controlling interests of three of Discovery's subsidiaries. The put options entitle the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates.

The following put options were issued:

- PAC has the option to sell its 25% shareholding in PHHL to Discovery, five years from 1 August 2010 or after each succeeding one year period, at the fair market value.
- Humana has the option to sell its 25% shareholding in TVG LLC to Discovery, seven years after acquisition or after each succeeding two year period, at the fair market value less a 15% discount.
- The Discovery Insure preference shareholders have the option to sell its 25% shareholding in Discovery Insure to Discovery, between five and seven years after acquisition, at the fair market value.

In accordance with IAS32, Discovery has recognised the fair value of the non-controlling interest, being the present value of the estimated purchase price, as a financial liability in the statement of financial position (Puttable non-controlling interests). In raising this liability, the non-controlling interest is derecognised and the excess of the liability is debited to retained earnings in the statement of changes in equity. Discovery has consolidated 100% of the subsidiaries results.

Interest is recorded in respect of this liability within finance charges using the effective interest rate method. The estimated purchase price is reconsidered at each reporting date, and any changes in the value of the liability as a result of changes in the assumptions used to estimate the future purchase price will be recorded in profit or loss.

20. Puttable non-controlling interests CONTINUED

The aggregate effects on Discovery's results at 30 June 2011 were as follows:

R million	Total
Puttable non-controlling interest recognised at date of issue:	**2 194**
– Allocated from non-controlling interests	**893**
– Allocated to retained earnings	**1 301**
Further share issues to non-controlling interests	**122**
Finance charges recognised in profit or loss	**86**
Net exchange differences arising during the period	**(88)**
Closing value of Puttable non-controlling interest liability	**2 314**

21. Deferred income tax

R million	Group 2011	Group 2010
Deferred tax asset	**296**	303
– Current	**27**	42
– Non-current	**269**	261
Deferred tax liability	**(2 584)**	(1 849)
– Current	**(33)**	(46)
– Non-current	**(2 551)**	(1 803)
	(2 288)	(1 546)
Movement summary:		
Balance at beginning of year	**(1 546)**	(1 163)
Acquisition of businesses	**(347)**	–
Income statement charge	**(398)**	(382)
Deferred tax on cash flow hedge charged to equity	**11**	(12)
Capital gains taxation on market value adjustments and realised gains charged to equity	**(25)**	11
Exchange differences	**17**	–
Balance at end of year	**(2 288)**	(1 546)

Deferred taxation comprises:

R million	Opening balance	Charge for the year	Closing balance
Year ended 30 June 2011			
Assessed loss in company policyholders' fund	**41**	**–**	**41**
Assessed loss in subsidiaries	**48**	**15**	**63**
Capital gains tax on impairment of available-for-sale financial instruments	**1**	**(1)**	**–**
Capital gains tax on unrealised gains on available-for-sale financial instruments	**(44)**	**(14)**	**(58)**
Cash flow hedge	**(12)**	**13**	**1**
Deferred acquisition costs	**(31)**	**(17)**	**(48)**
Deferred revenue	**3**	**1**	**4**
Difference between accounting and tax balances arising from insurance contracts	**(1 701)**	**(521)**	**(2 222)**
Difference between wear and tear and depreciation	**(34)**	**1**	**(33)**
Fair value hedge	**(11)**	**2**	**(9)**
Finance lease	**1**	**(1)**	**–**
Gains on disposal of intellectual property	**–**	**(28)**	**(28)**
Intangibles recognised on acquisition of businesses	**–**	**(277)**	**(277)**
Operating leases	**13**	**(5)**	**8**
Prepayments	**(16)**	**4**	**(12)**
Provisions	**18**	**18**	**36**
Share-based payments	**40**	**10**	**50**
Unrealised forex loss	**(1)**	**1**	**–**
Unutilised special transfer balances	**133**	**61**	**194**
Other	**6**	**(4)**	**2**
	(1 546)	**(742)**	**(2 288)**

R million	Opening balance	Charge for the year	Closing balance
Year ended 30 June 2010			
Assessed loss in company policyholders' fund	12	29	41
Assessed loss in subsidiaries	35	13	48
Capital gains tax on unrealised gains on available-for-sale financial instruments	(43)	(1)	(44)
Capital gains tax on impairment of available-for-sale financial instruments	13	(12)	1
Cash flow hedge	–	(12)	(12)
Deferred acquisition costs	(83)	52	(31)
Deferred revenue	19	(16)	3
Difference between accounting and tax balances arising from insurance contracts	(1 233)	(468)	(1 701)
Difference between wear and tear and depreciation	(28)	(6)	(34)
Fair value hedge	–	(11)	(11)
Finance lease	3	(2)	1
Operating leases	15	(2)	13
Prepayments	(15)	(1)	(16)
Provisions	16	2	18
Share-based payments	19	21	40
Unrealised forex loss	1	(2)	(1)
Unutilised special transfer balances	100	33	133
Other	6	–	6
	(1 163)	(383)	(1 546)

Tax has been accrued for all South African entities, except for Discovery Insure as a deferred tax asset has not been raised on the assessable losses.

Taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers. Discovery Life currently has an assessed loss in the individual policyholders' fund of R10.4 billion (2010: R8.6 billion) for which no deferred tax asset has been created.

Discovery has not accounted for deferred tax assets relating to the losses in PruHealth or the United States subsidiaries.

22. Deferred revenue

R million	Group 2011	Group 2010
At 1 July	**75**	86
Movement through the income statement	**55**	(11)
At 30 June	**130**	75
Current	**68**	55
Non-current	**62**	20
	130	75

Deferred revenue relates to the following:

- Gym activation fees received from Vitality members on activation of their gym contracts which are deferred over the period of the contract.
- Deferred income in respect of the Discovery Miles benefit. The fair value attributed to the credits awarded is deferred as a liability and recognised as revenue when the miles are redeemed or if they expire.

23. Employee benefits

	Group 2011	Group 2010
Leave pay		
Opening balance	**70**	65
Additional provisions raised	**41**	19
Used during the year	**(14)**	(14)
Closing balance	**97**	70

24. Trade and other payables

R million	Group 2011	Group 2010
Due to reinsurers	**95**	68
Payables and accrued liabilities	**1 336**	887
Payroll creditors	**365**	328
Policyholder unallocated funds	**39**	95
Prudential Assurance Company	**353**	–
Straight-lining operating lease payments	**35**	53
Value-added tax	**27**	31
Other creditors	**141**	219
	2 391	1 681
Current	**2 167**	1 413
Non-current	**224**	268
	2 391	1 681

25. Financial instruments measured at fair value

Below, financial instruments measured at fair value, have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflects the significance of the inputs used in measuring fair value. These are as follows:

Level 1 includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 includes financial instruments that are valued using techniques based significantly on observable market data. Instruments in this category are valued using:

(a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

(b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3 includes financial instruments that are valued using valuation techniques that incorporate information other than observable market data and where at least one input (which could have a significant effect on instruments' valuation) cannot be based on observable market data.

R million	Level 1	Level 2	Level 3	Total
30 June 2011				
Financial assets				
At fair value through profit or loss:	**4 599**	**5 894**	**–**	**10 493**
– Equity securities	**2 882**	**–**	**–**	**2 882**
– Equity linked notes	**–**	**4 692**	**–**	**4 692**
– Debt securities	**1 292**	**27**	**–**	**1 319**
– Inflation linked securities	**116**	**–**	**–**	**116**
– Money market securities	**309**	**1 129**	**–**	**1 438**
– Derivative financial instruments	**–**	**46**	**–**	**46**
Available-for-sale:	**1 691**	**445**	**–**	**2 136**
– Equity securities	**585**	**–**	**–**	**585**
– Equity linked notes	**1**	**49**	**–**	**50**
– Debt securities	**172**	**44**	**–**	**216**
– Inflation linked securities	**38**	**5**	**–**	**43**
– Money market securities	**895**	**347**	**–**	**1 242**
	6 290	**6 339**	**–**	**12 629**
Financial liabilities				
– Investment contracts at fair value through profit or loss	**–**	**2 063**	**–**	**2 063**
– Derivative financial instruments at fair value	**–**	**22**	**–**	**22**
– Puttable non-controlling interests	**–**	**–**	**2 314**	**2 314**
	–	**2 085**	**2 314**	**4 399**

There were no transfers between level 1 and level 2 during the current financial year.

R million	Level 1	Level 2	Level 3	Total
30 June 2010				
Financial assets				
At fair value through profit or loss:	2 195	3 779	–	5 974
– Equity securities	1 533	1	–	1 534
– Equity linked notes	–	2 805	–	2 805
– Debt securities	371	4	–	375
– Inflation linked securities	35	–	–	35
– Money market securities	256	858	–	1 114
– Derivative financial instruments	–	111	–	111
Available-for-sale:	1 707	418	–	2 125
– Equity securities	1 358	–	–	1 358
– Equity linked notes	–	56	–	56
– Debt securities	274	65	–	339
– Inflation linked securities	33	–	–	33
– Money market securities	42	297	–	339
	3 902	4 197	–	8 099
Financial liabilities				
– Investment contracts at fair value through profit or loss	–	1 544	–	1 544
– Derivative financial instruments at fair value	–	12	–	12
	–	**1 556**	**–**	**1 556**

26. Net insurance premiums

R million	Group 2011	Group 2010
Health	**3 355**	338
Recurring premiums	**4 048**	617
Reinsurance premiums	**(693)**	(279)
Individual life	**6 933**	5 998
Recurring premiums	**5 092**	4 167
Single premiums	**2 731**	2 614
Reinsurance premiums	**(890)**	(783)
Group life	**498**	352
Recurring premiums	**615**	462
Reinsurance premiums	**(117)**	(110)
Premium revenue from investment contracts transferred to insurance contracts	**–**	1 865
	10 786	8 553
Gross income of Group	**12 486**	7 860
Premium revenue from investment contracts transferred to insurance contracts	**–**	1 865
Outward reinsurance premiums	**(1 700)**	(1 172)
	10 786	8 553

27. Investment income

R million	Group 2011	Group 2010
Available-for-sale	**56**	70
– Interest	**39**	50
– Dividends	**19**	27
– Investment charges	**(2)**	(7)
At amortised cost interest income	**24**	16
Cash and cash equivalents interest income	**125**	153
	205	239

28. Net realised gains on available-for-sale financial assets

R million	Group 2011	Group 2010
Realised gains	**231**	228
– Equity securities	**217**	221
– Debt securities	**8**	7
– Inflation linked securities	**1**	–
– Foreign assets	**2**	–
– Money market securities	**3**	–
Realised losses	**(29)**	(28)
– Equity securities	**(23)**	(22)
– Debt securities	**(2)**	(4)
– Foreign assets	**(2)**	(2)
– Money market securities	**(2)**	–
	202	200

29. Net fair value gains on financial assets designated at fair value through profit or loss

R million	Group 2011	Group 2010
Investment income	**–**	27
– Interest	**88**	47
– Dividends	**64**	5
– Investment charges	**(152)**	(25)
Net realised gains	**113**	55
Net fair value gains	**548**	194
	661	276

30. Net claims and policyholders' benefits

R million	Group 2011	Group 2010
Health insurance claims	**2 511**	289
Gross claims	**2 749**	561
Recapture of reinsurance	**313**	–
Less: Reinsurance recoveries	**(551)**	(272)
Individual life insurance claims	**1 216**	964
Death	**859**	634
Disability	**786**	675
Payback benefits	**154**	140
Less: Reinsurance recoveries	**(583)**	(485)
Group life insurance claims	**322**	226
Death	**173**	180
Disability	**261**	130
Less: Reinsurance recoveries	**(112)**	(84)
Individual investment benefits	**591**	266
Surrenders	**477**	263
Retirement	**22**	3
Guaranteed	**14**	–
Annuity payments	**78**	–
	4 640	1 745
Policyholder benefits	**5 573**	2 586
Recapture of reinsurance	**313**	–
Recoveries from reinsurers	**(1 246)**	(841)
Net policyholder benefits	**4 640**	1 745

31. Acquisition costs

R million	Group 2011	Group 2010
Commission expenses	**2 167**	1 830
Movement in deferred acquisition costs	**(51)**	197
Movement in deferred revenue liability	**–**	(66)
	2 116	1 961

32. Marketing and administration expenses

	Group 2011	Group 2010
Marketing and administration expenses comprises:		
Employee costs	**2 823**	2 249
Marketing and distribution costs	**461**	345
IT systems and consumables	**240**	203
Building-related and office costs	**436**	355
Depreciation and amortisation	**176**	190
Vitality benefit costs	**1 225**	1 115
Other costs	**651**	350
	6 012	4 807
Marketing and administration expenses include the following:		
Amortisation of intangible assets (refer to note 7*)		
Exclusivity rights	**–**	3
Software	**109**	113
	109	116

** The amortisation included in marketing and administration expenses does not agree to note 7 in the current financial year as transactions relating to business combinations are disclosed separately in the income statement.*

	Group 2011	Group 2010
Auditors' remuneration		
Audit fees		
– current year	**18**	12
Fees for other services	**2**	*
	20	12

** Amount is less than R500 000*

	Group 2011	Group 2010
Depreciation on property and equipment (refer to notes 5 and 6)		
Investment property	**1**	1
Furniture, fittings and equipment	**26**	24
Computer equipment and operating systems	**17**	33
Leasehold improvements	**20**	14
Motor vehicles	**3**	2
	67	74
Employee costs		
Salaries, wages and allowances	**2 205**	1 747
Medical aid fund contributions	**104**	89
Defined contribution provident fund contributions	**87**	77
Social security levies	**43**	20
Share-based payment expenses		
– equity-settled	**3**	3
– cash-settled	**174**	168
Staff training	**18**	12
Recruitment fees	**22**	19
Temporary staff	**35**	36
Provision for leave pay	**60**	16
Other	**72**	62
	2 823	2 249

32. Marketing and administration expenses CONTINUED

R million	Group 2011	Group 2010
Directors' and prescribed officers' remuneration is included in employee costs.		
Refer to Directorate.		
Operating lease charges		
Land and buildings	**166**	131
Computer and office equipment	**68**	67
	234	198
Professional fees		
Actuarial fees	**3**	3
Technical and other	**169**	148
	172	151
Repairs and maintenance expenditure		
Computer repairs and maintenance	**12**	15
Furniture and equipment maintenance	**1**	2
Office repairs and maintenance	**6**	4
Software maintenance	**88**	91
Motor vehicle repairs and maintenance	**1**	–
	108	112
Other operating costs		
Impairment of receivables	**24**	41
Foreign exchange losses on supplier balances	**11**	4

33. Share-based payment expenses

33.1 Staff incentive schemes

Discovery operates four share-based payment arrangements. The details of these arrangements are described below:

1. BEE staff share trust

   5 290 000 Discovery Holdings Limited's shares were issued to the BEE staff share trust for current and future employees. The trust consists of two components; the allocation scheme and the option scheme as described below:

   Allocation scheme

   Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares and cash, if any, to which the employee may be entitled.

   Option scheme

   Options granted to black employees may be exercised two, three, four and five years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the fifth year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

2. The Vitality Group Inc. stock option plan

   Options are granted at fair value price at date of grant, currently US$0.49. Options vest 33.3% per year for three years and must be exercised within four years of the date that 100% vest otherwise the options expire.

3. The phantom scheme

   Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery share price. The bonus is earned if the participant is employed on each vesting date. For units issued in September, the vesting of the units is two, three, four and five years after allocation of the bonus units. Units issued in July 2009 all vest on 30 June 2011. The bonus may not be carried forward.

   In the calculation of the bonus for units issued, the participants could choose to replicate the economics of a Discovery share or a call option over a Discovery share or a combination of both for the 2005, 2006 and 2007 allocations and only that of a Discovery share for the 2008, 2009 and 2010 allocations.

4. Acquisition schemes

   There are various schemes offered to franchise directors, agents and employees where participants are allocated share units which replicate the economics of a Discovery share. The share units are settled as a cash bonus on vesting. The bonus is earned if the participant is employed on the vesting date. The vesting periods on the schemes vary from two to five years. The bonus may not be carried forward.

The share option schemes mentioned in 1 and 2 on the previous page have been classified as equity-settled schemes and therefore, a share-based payment reserve has been recognised.

The schemes mentioned in 3 and 4 on the previous page have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2.

The following is a summary of the terms and conditions of the share options granted:

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled during year	Shares under option at end of year
1. BEE staff share trust							
13/09/2005	R21.47	13/09/2010	624 000	–	(588 750)	–	**35 250**
13/09/2005	–	13/09/2010	436 091	–	(312 582)	–	**123 509**
30/09/2006	R22.30	30/09/2011	303 750	–	(135 000)	–	**168 750**
30/09/2006	–	30/09/2011	67 500	–	(33 750)	–	**33 750**
15/07/2007	R30.00	30/06/2012	217 500	–	–	–	**217 500**
15/07/2007	–	30/06/2012	31 875	–	(10 625)	–	**21 250**
06/03/2008	R27.40	28/02/2013	135 000	–	(42 725)	–	**92 275**
06/03/2008	–	28/02/2013	15 000	–	(7 500)	–	**7 500**
03/11/2008	–	31/10/2013	10 000	–	(2 500)	–	**7 500**
18/02/2009	–	04/01/2014	19 230	–	(4 807)	–	**14 423**
03/11/2008	R23.99	31/10/2013	–	120 000	(30 000)	–	**90 000**
19/03/2009	–	01/04/2014	–	30 000	(7 500)	–	**22 500**
30/09/2010	R34.90	30/09/2015	–	47 277	–	–	**47 277**
30/09/2010	–	30/09/2015	–	59 326	–	–	**59 326**
17/03/2011	–	30/03/2016	–	6 000	–	–	**6 000**
2. The Vitality Group Inc. stock option plan							
01/10/2008	US$0.38	30/06/2012	5 100 000	–	–	(445 000)	**4 655 000**
3. The phantom scheme							
30/09/2005	R21.50	30/09/2010	1 162 662	–	(1 160 394)	(2 268)	**–**
30/09/2005	–	30/09/2010	115 797	–	(115 110)	(687)	**–**
30/09/2006	R22.30	30/09/2011	2 686 819	–	(1 310 409)	(240 281)	**1 136 129**
30/09/2006	–	30/09/2011	553 562	–	(275 531)	(32 187)	**245 844**
30/09/2007	R26.40	30/09/2012	2 344 856	–	(612 769)	(362 174)	**1 369 913**
30/09/2007	–	30/09/2012	938 812	–	(311 188)	(34 749)	**592 875**
30/09/2008	–	30/09/2013	3 740 050	–	(928 213)	(264 012)	**2 547 825**
01/07/2009	–	30/06/2011	3 975 084	–	–	(146 064)	**3 829 020**
30/09/2009	–	30/09/2014	3 507 940	–	–	(317 722)	**3 190 218**
30/09/2010	–	30/09/2015	–	3 403 865	–	(285 858)	**3 118 007**
4. Acquisition schemes							
01/07/2005 to 30/06/2006	–	30/06/2011	5 442	–	(4 133)	(1 309)	**–**
01/07/2006 to 30/06/2007	–	30/06/2012	127 133	–	(44 634)	577	**83 076**
01/07/2007 to 30/06/2008	–	30/06/2013	655 344	–	(186 005)	(200 039)	**269 300**
01/07/2008 to 30/06/2009	–	30/06/2014	1 452 169	–	(712 318)	(69 980)	**669 871**
01/07/2009 to 30/06/2010	–	30/06/2015	957 728	–	(321 657)	(63 378)	**572 693**
01/07/2010 to 30/06/2011	–	30/06/2016	–	856 374	(123 295)	–	**733 079**

33. Share-based payment expenses CONTINUED

The fair value of options was calculated at year-end on a Black-Scholes model using the following assumptions:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust					
– issued on 13 September 2005	R 21.47	R 21.47	2 to 5 years	27.3%	–
Phantom scheme and					
Acquisition scheme					
– issued on 30 September 2006 and 2007	R 38.55	*	up to 1.25 years	27.5%	1.88
Vitality Group Inc. stock option plan	US$0.375	US$0.375	6.25 years	14.1%	–

** Refer to table on the previous page for detailed option prices.*

The Phantom scheme and Acquisition schemes are cash-settled and are thus repriced at each reporting date.

33.2 Black Economic Empowerment (BEE) transaction and IFRS 2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares	Subscription price per share
Dlamini SPV	200 000	0.001
Zilwa SPV	200 000	0.001
WDBIH SPV	17 703 273	0.113
Maphai SPV	1 106 455	1.718
Discovery Foundation	14 226 181	0.001
BEE staff share trust	5 290 000	0.001

171 096 shares were reacquired from Dlamini SPV for R0.001 each on 15 April 2009 by a subsidiary of Discovery Holdings and are being held as treasury shares. 80 790 shares were reacquired from the Zilwa SPV for R0.001 each on 9 December 2010 by Discovery Holdings and cancelled from issue.

Mechanics of the transaction with BEE partners other than BEE staff share trust (BEE parties)

The difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represents an outstanding funded amount provided by Discovery shareholders (the funded amount). The BEE parties will provide Discovery and its subsidiaries with a right to purchase, at the end of ten years, such number of ordinary shares at 0.1 cent per share (the par value) as will provide Discovery with a notional return on this funded amount (the Discovery repurchase agreement).

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them, the BEE parties will have a right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties rank pari passu with existing Discovery shares. The BEE parties have undertaken to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distribution.

For purposes of IFRS 2, the transaction has been accounted for based on the fair value of a share option with a similar economic effect. In respect of the WDBIH SPV, the Maphai SPV and the Foundation SPV, the transaction was expensed in full in the 2006 financial year. This fair value has been determined using a Black-Scholes model with the following assumptions:

	WDBIH	Maphai	Foundation
Spot price	R21.47	R21.47	R21.47
Exercise price	R81.82	R60.55	R64.21
Option term	10 years	10 years	10 years
Volatility	27.3%	27.3%	27.3%
Dividend yield	0%	0%	0%

For details of staff incentive schemes, refer to note 33.1. The Zilwa SPV is valued in line with the BEE staff share trust.

34. Finance costs

R million	Group 2011	Group 2010
Interest expense on:		
– Bank loan	**44**	1
– Loan funding	**35**	4
– Finance lease liability	**2**	7
– Accounts payable balances	**1**	2
– Puttable non-controlling interest liabilities	**86**	–
	168	14

35. Foreign exchange loss

	Group 2011	Group 2010
Net foreign exchange losses	**(14)**	(3)

The net foreign exchange losses arise primarily from the settlement of foreign subsidiary intercompany balances.

36. Taxation

R million	Group 2011	Group 2010
Charge for the year:		
Current taxation	**429**	363
South African normal taxation	**439**	383
Foreign countries normal taxation	**(62)**	(21)
South African capital gains taxation	**52**	1
Deferred taxation	**398**	382
Secondary tax on companies	**45**	37
	872	782

	%	%
Taxation rate reconciliation		
Effective taxation rate	**25.3**	31.3
Prior year adjustments	**0.3**	–
Foreign subsidiary losses not provided for	**(3.1)**	(2.3)
Discovery Insure losses not provided for	**(0.6)**	–
Gain from disposal of businesses	**5.7**	–
Capital profits and dividend income	**1.7**	1.4
Impairment on investments	**–**	(0.5)
Secondary tax on companies	**(1.3)**	(1.5)
Disallowed expenditure	**(1.5)**	(1.2)
Tax rate differences	**0.8**	0.5
Other permanent differences	**0.7**	0.3
Standard rate of taxation	**28.0**	28.0

Tax has been accrued for all South African entities, except for Discovery Insure as a deferred tax asset has not been raised on the assessable losses. South African income tax has been provided at 28% (2010: 28%) and secondary tax on companies at 10% in the financial statements and embedded value statements.

Current taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers. Destiny Health has federal tax losses of US$195 million (R1 320 million) (2010: US$187 million (R1 418 million)) to carry forward against future taxable income and will begin to expire in 2019. These tax losses have not been recognised in the financial statements and are available for set-off against future taxable profits.

Discovery obtained tax relief for half of the PruHealth losses in respect of the calendar year ending 31 December 2009, as this tax asset was ceded to Prudential Assurance Company in the United Kingdom (PAC). R10 million in respect of this tax relief has been included in income tax at 30 June 2010.

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

37. Earnings per share

	Group 2011	Group 2010
Basic earnings per share		
Earnings per share are based on net profit after tax attributable to equity holders and the weighted number of ordinary shares in issue.		
Earnings attributable to equity holders (R million)	**2 577**	1 717
Weighted number of ordinary shares in issue (000's)	**554 847**	554 117
Basic earnings per share (cents)	**464.4**	309.9
Diluted earnings per share		
Diluted earnings per share are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has two categories of dilutive potential ordinary shares namely: – shares issued from the staff share trusts which have not been delivered to participants; and – shares issued to BEE parties.		
Weighted average ordinary shares in issue (000's) adjusted for:	**554 847**	554 117
– Weighted average ordinary shares in the staff share trusts (000's)	**202**	2 041
– Weighted average ordinary shares issued to BEE parties (000's)	**7**	99
	555 056	556 257
Diluted earnings per share (cents)	**464.2**	308.7
Headline earnings		
Headline earnings per share are based on the net profit after tax attributable to equity holders adjusted for items of a capital nature and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation		
Earnings attributable to equity holders (R million)	**2 577**	1 717
Adjusted for:		
– Realised gains on available-for-sale financial instruments	**(202)**	(200)
– Capital gains tax on realised profit on available-for-sale financial instruments	**28**	28
– Gain on disposal of joint venture(1)	**(667)**	–
– Realised gains from sale of intellectual property(2)	**(87)**	–
– Tax on gains from sale of intellectual property	**30**	–
– Realised gains from sale of investment property	**(122)**	–
– Capital gains tax on gains from sale of investment property	**13**	–
– Write-off of software from business combination(1)	**95**	–
– Tax on write-off of software from business combination	**(27)**	–
Headline earnings	**1 638**	1 545
Headline earnings per share (cents):		
– Undiluted	**295.3**	278.8
– Diluted	**295.2**	277.7
Normalised headline earnings		
Headline earnings	**1 638**	1 545
– Recapture of reinsurance(1)	**313**	–
– DAC expense reversed due to business combination(1)	**(137)**	–
– Amortisation of intangible from business combination(1)	**97**	–
– Tax on amortisation of intangible from business combination	**(27)**	–
– Once-off costs relating to business acquisitions(1)	**58**	–
– Finance costs raised on puttable non-controlling interest financial liability(3)	**86**	–
– Bee expenses	**–**	6
Normalised headline earnings	**2 028**	1 551
Normalised headline earnings per share (cents):		
– Undiluted	**365.8**	279.9
– Diluted	**365.5**	278.8

(1) Refer to note 8 for business combination adjustments.
(2) Refer to note 9 for detail of intellectual property gains.
(3) Refer to note 20 for detail of puttable non-controlling interests.

38. Cash flow information

R million		Group 2011	Group 2010
38.1	**Cash generated by operations**		
	Profit before taxation	**3 451**	2 497
	Adjusted for:		
	Investment income	**(205)**	(272)
	Realised investment gains and losses	**(315)**	(255)
	Financing costs	**168**	14
	Premiums, claims and investment charges for liabilities under investment contracts	**467**	(792)
	Non-cash items:		
	Amortisation	**301**	116
	Deferred acquisition costs	**(188)**	197
	Deferred revenue	**55**	(11)
	Depreciation	**67**	74
	Gain on disposal of businesses	**(704)**	–
	Gain on disposal of intellectual property	**(87)**	–
	Gain on disposal on investment property	**(122)**	–
	Impairment of fair value hedge	**(14)**	(30)
	Loss from associates	**4**	–
	Operating lease payments in advance	**(18)**	(14)
	Provision for bad debts	**21**	(18)
	Provision for employee benefits	**27**	5
	Share-based payment expenses	**177**	177
	Transfer to liabilities under reinsurance contracts	**106**	65
	Transfer to/(from) assets/liabilities under insurance contracts	**1 424**	2 652
	Transfer to liabilities under investment contracts	**52**	175
	Translation differences	**26**	72
	Unearned premiums	**(87)**	7
	Unrealised gains on investments at fair value through profit or loss	**(548)**	(188)
	Other	**2**	1
	Working capital changes:		
	Loans and receivables including insurance receivables	**401**	(125)
	Trade and other payables	**(245)**	455
		4 216	4 802
38.2	**Taxation paid**		
	Balance at beginning of year	**101**	83
	Taxation charged for the year in the income statement	**(872)**	(782)
	Adjustment for movement in deferred taxation	**398**	382
	Taxation recoverable from consortium relief – PruHealth	**(62)**	(9)
	Balance at end of year	**–**	(101)
		(435)	(427)
38.3	**Proceeds from issuance of ordinary shares**		
	Preference shares issued in Discovery Insure	**54**	–
	Ordinary shares issued in The Vitality Group LLC to non-controlling interest	**106**	–
	Ordinary shares issued in PruHealth to non-controlling interest	**122**	–
	Ordinary shares issued in Destiny Health to non-controlling interest	**–**	2
		282	2

38. Cash flow information CONTINUED

	R million	Group 2011	Group 2010
38.4	**Repayment of borrowings**		
	Balance at end of year	–	23
	Less: Balance at beginning of year	**(23)**	(32)
		(23)	(9)
38.5	**Increase in borrowings**		
	Balance at end of year	**402**	–
	Interest accrual on borrowings	**(2)**	–
		400	–

39. Dividends per share

The dividends paid in 2011 totalled R461 million and comprised a final dividend of 36 cents per share paid on 18 October 2010 and an interim dividend of 42 cents per share paid on 22 March 2011.

The dividends paid in 2010 totalled R389 million and comprised a final dividend of 33 cents per share paid on 19 October 2009 and an interim dividend of 33 cents per share paid on 23 March 2010.

40. Commitments

	R million	Group 2011	Group 2010
40.1	**Capital commitments** Capital expenditure approved but not contracted for at the reporting date is as follows:		
	Property and equipment	**62**	68
	Intangible assets	**105**	62
		167	130
40.2	**Operating lease commitments** Discovery has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery's activities concerning dividends, additional debt or further leasing.		
	Discovery leases certain land and buildings under operating leases. The remaining periods of the leases are from three months to nine years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:		
	Due within one year	**111**	142
	Due within two to five years	**309**	321
	Due after five years	**83**	37
	Cash flow commitment	**503**	500
	Accrued to a liability	**(35)**	(53)
	Net commitment	**468**	447
	Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from one month to six years. The future minimum commitments are as follows:		
	Due within one year	**67**	69
	Due within two to five years	**112**	105
	Due after five years	**2**	8
	Cash flow commitment	**181**	182

41. Contingencies

The Group is exposed to various actual or potential claims. No material claims have been instituted against Discovery Holdings Limited or any of its subsidiaries.

42. Related parties

List of related parties as defined:

Subsidiaries

Details of subsidiaries directly owned by Discovery are contained in company note 1.

Associates

Details of associates of Discovery are contained in note 9.

Key management personnel

Key management personnel have been defined as Directors of Discovery Holdings Limited, Discovery Health (Proprietary) Limited and Discovery Life Limited, as these businesses constitute the majority of the Discovery Group.

Details of the key management personnel are to be found on page 245.

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent that specific transactions have occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Transactions with related parties

For purposes of this section Discovery Holdings Limited will be referred to as the Company and where relevant, amounts are excluding VAT.

RMI Holdings Limited

RMI Holdings Limited has a 25.01% shareholding in Discovery Holdings Limited. These shares were previously held by RMB Holdings Limited.

Discovery invests from time to time in securities issued by RMB Holdings Limited for the benefit of shareholders and policyholders. Discovery has no investment in RMI Holdings Limited at year-end. The following RMB Holdings Limited shares are included in equity investments:

	Nominal holding		Market value	
	2011	2010	**2011**	2010
	000's	000's	R'000	R'000
– Available-for-sale	**157**	1 414	**4 192**	44 118
– At fair value through profit or loss	**–**	116	**–**	3 633
Holdings as at 30 June	**157**	1 530	**4 192**	47 751

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an arm's length basis and totalled R3 214 million (2010: R2 824 million). Discovery offers the members of DHMS access to the Vitality programme.

Interest between Discovery and DHMS is calculated at call rates on the daily outstanding balance. Interest paid to DHMS amounted to R168 857 (2010: R144 000).

In the prior financial year, Discovery Third Party Recovery Services (DTPRS) paid R10 million to DHMS to exclusively pursue up to 50% of claims instituted against the Road Accident Fund (RAF) on behalf of DHMS. All recoveries were shared equally between DTPRS and DHMS. DHMS was paid R19 million for the year ended 30 June 2010 in respect of RAF recoveries.

In the current financial year, DTPRS paid DHMS R50 million to purchase all the risks and rewards of ownership to the claims due from the RAF up to 31 December 2010.

DTPRS also provides a service to DHMS to recover all claims that are due from the Compensation for Occupational Injuries and Diseases. DTPRS received R6 million (2010: R4 million) for this service.

DHMS owes Discovery R367 million (2010: R334 million) at year-end.

Closed schemes

Discovery Health administers the following restricted membership medical schemes:

– Altron Medical Scheme
– Anglovaal Group Medical Scheme
– Edcon Medical Aid Scheme
– IBM Medical Scheme

42. Related parties CONTINUED

Closed schemes CONTINUED

– LA Health Medical Scheme
– Lonmin Medical Scheme
– Naspers Medical Scheme (amalgamated with DHMS effective 1 January 2011)
– Quantum Medical Aid Society
– Remedi Medical Scheme
– Retail Medical Scheme
– Tsogo Sun Group Medical Scheme
– Umed Medical Scheme (amalgamated with DHMS effective 1 August 2010)
– University of KwaZulu-Natal Medical Scheme

Discovery Health charges these schemes administration fees which are determined on an arm's length basis. These fees totalled R217 million (2010: R164 million) . Amounts due to Discovery at year-end totalled R28 million (2010: R22 million).

Discovery Consulting Services

Discovery has established a network of 50 franchises in order to establish a national footprint for its products. Discovery has paid R265 million (2010: R207 million) in fees to the franchises.

The Discovery Consulting Services participate in the Acquisition Scheme. Refer to note 33 for further details. During the year, R24 million (2010: R25 million) was accrued for in terms of this scheme.

The Discovery Foundation

The Discovery Foundation was launched in 2006 and is an independent shareholder of Discovery, with its own trustees. It forms one arm of Discovery Holdings' black economic empowerment transaction. The principal aim of the Discovery Foundation is to invest in the education and training of medical specialists and the development of academic and research centres, with particular focus on those areas with greatest need.

The Discovery Foundation received contributions from Discovery of R9.7 million during the year (2010: R7.6 million).

The Discovery Fund

A fund for sustainable non-governmental healthcare projects, especially in primary healthcare. These projects complement the delivery of primary and preventative care in the public sector and help to relieve the burden on state facilities.

The Discovery Fund received contributions from Discovery of R10.8 million during the year (2010: R8.6 million).

Transactions with share trusts

Loans to share trusts amounted to R117 million at 30 June 2011 (2010: R147 million). Interest received on these loans amounted to R11 million (2010: R13 million).

Discovery staff retirement funds

A pension and provident fund has been set-up specifically for the Discovery staff. Contributions made to this fund during the year amounted to R88 million (2010: R77 million). The pension and provident fund has invested R273 million in Discovery Invest Target Retirement Funds.

Key management personnel of Discovery Holdings Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

(i) Discovery Holdings Limited key management personnel's compensation, paid by the Company or on behalf of the Company for services rendered to Discovery Holdings Limited, is detailed in the Directorate on page 245.

(ii) Aggregate details of insurance, annuity and investment transactions between Discovery Holdings Limited, any subsidiary, associate or joint venture of Discovery Holdings Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

	Aggregate insured cover		Premiums received		Claims paid	
R'000	**2011**	2010	**2011**	2010	**2011**	2010
Life insurance	**370 960**	377 916	**1 891**	2 013	**–**	–
Short-term insurance	**1 695**	–	**2**	–	**–**	–

Investment contracts

	Investment value		Premiums received		Investment returns	
R'000	**2011**	2010	**2011**	2010	**2011**	2010
Investment contacts	**8 115**	5 103	**3 517**	3 602	**502**	47

(iii) Aggregate details of transactions between PruHealth and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

PruHealth health insurance

	Amounts paid	
R'000	**2011**	2010
Health insurance	**109**	–

(iv) Aggregate details of transactions between Vitality Healthstyle (Proprietary) Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty programme

	Premiums received		Amounts paid	
R'000	**2011**	2010	**2011**	2010
Vitality benefits	**18**	18	**99**	89

DiscoveryCard

	Card fees received		Discounts paid	
R'000	**2011**	2010	**2011**	2010
DiscoveryCard	**25**	22	**115**	325

Key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management accrued 1 633 021 Discovery miles as part of the DiscoveryCard loyalty programme for the year ended 30 June 2011 (2010: 2 079 952).

(v) Loans from subsidiary companies to key management personnel amounted to R12 million at 30 June 2011. Interest received on these loans amounted to R1 million.

(vi) Aggregate shareholdings of key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management, in Discovery Holdings Limited as at 30 June 2011 was 103 203 892 ordinary shares (2010: 106 731 742 ordinary shares).

43. Events after reporting date

Preference share issue

At a special general meeting of shareholders held on 2 August 2011, the shareholders approved the creation of 40 000 000 A preference shares, 20 000 000 B preference shares and 20 000 000 C preference shares. On 15 August 2011, Discovery issued 8 000 000 B preference shares at an issue price of R100 per share by way of private placement. The B preference shares were listed on the JSE Securities Exchange South Africa under the abbreviated short name "DSY B PREF" with alpha code "DSBP" in the "Specialist Securities" – preference share sector of the market, and commenced trading on Monday, 15 August 2011.

Declaration of final dividend

The board has declared a final dividend of 48 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 7 October 2011
– Date trading commences "ex" dividend	Monday, 10 October 2011
– Record date	Friday, 14 October 2011
– Date of payment	Monday, 17 October 2011

Share certificates may not be dematerialised or rematerialised between Monday, 10 October 2011 and Friday, 14 October 2011, both days inclusive.

Company statement of financial position

At 30 June 2011

R million	Notes	Company 2011	Company 2010
ASSET			
Investments in subsidiaries	1	**3 850**	2 350
Investments in associate	2	**225**	–
Derivatives	3	**–**	38
Loan to share incentive trust	4	**117**	149
Loan to subsidiary	5	**563**	–
Cash and cash equivalents	9.8	**–**	55
Total assets		**4 755**	2 592
EQUITY			
Capital and reserves			
Share capital and share premium	6	**1 744**	1 744
Other reserves		**312**	330
Retained earnings		**1 372**	239
Total equity		**3 428**	2 313
LIABILITIES			
Trade and other payables		**835**	270
Borrowings at amortised cost	7	**402**	–
Bank overdraft	9.8	**89**	–
Deferred income tax	8	**–**	7
Current income tax liabilities		**1**	2
Total liabilities		**1 327**	279
Total liabilities and equity		**4 755**	2 592

Company statement of comprehensive income

For the year ended 30 June 2011

R million	Company 2011	Company 2010
Investment income	1 953	1 070
Marketing and administration expenses	(7)	(35)
Net impairment of investment in subsidiaries	(244)	(299)
Profit from operations	1 702	736
Finance costs	(44)	–
Foreign exchange loss	(13)	–
Profit before tax	1 645	736
Taxation	(50)	(43)
Profit for the year	1 595	693
Other comprehensive income:		
Cash flow hedges	(19)	31
– realised losses transferred to income	(4)	–
– tax on realised losses	1	–
– unrealised gains	(21)	38
– tax on unrealised gains	5	(7)
Other comprehensive income for the year, net of tax	(19)	31
Total comprehensive income for the year	1 576	724

Discovery Holdings Limited

Company statement of cash flows

For the year ended 30 June 2011

R million	Notes	Company 2011	Company 2010
Cash flow from operating activities		2 387	984
Cash generated/(utilised) by operations	9.1	558	(28)
Dividends received		1 919	1 048
Interest received		5	10
Interest paid		(44)	–
Taxation paid	9.2	(51)	(46)
Cash flow from investing activities		(2 069)	(605)
Increase in investment in subsidiary	9.3	(1 731)	(627)
Purchase of investment in associate	9.4	(225)	–
Decrease in loan to share incentive trust	9.5	42	22
Increase in loan to subsidiary	9.6	(555)	–
Increase in borrowings	9.7	400	–
Cash flow from financing activities		(462)	(391)
Dividends paid to equity holders		(462)	(391)
Net decrease in cash and cash equivalents		(144)	(12)
Cash and cash equivalents at beginning of year		55	67
Cash and cash equivalents at end of year	9.8	(89)	55

Company statement of changes in equity

For the year ended 30 June 2011

R million	Share capital	Share premium	Hedging reserve	Retained earnings	Share-based payment reserve	Total
Year ended 30 June 2010						
At beginning of year	1	1 743	–	(63)	293	1 974
Profit for the year	–	–	–	693	–	693
Other comprehensive income	–	–	31	–	–	31
Total comprehensive income for the year	–	–	31	693	–	724
Transactions with owners:						
Dividends paid to equity holders	–	–	–	(391)	–	(391)
Movement in share-based payment reserve	–	–	–	–	6	6
Total transactions with owners	–	–	–	(391)	6	(385)
Balance at 30 June 2010	1	1 743	31	239	299	2 313
Year ended 30 June 2011						
At beginning of year	**1**	**1 743**	**31**	**239**	**299**	**2 313**
Profit for the year	**–**	**–**	**–**	**1 595**	**–**	**1 595**
Other comprehensive income	**–**	**–**	**(19)**	**–**	**–**	**(19)**
Total comprehensive income for the year	**–**	**–**	**(19)**	**1 595**	**–**	**1 576**
Transactions with owners:						
Dividends paid to equity holders	**–**	**–**	**–**	**(462)**	**–**	**(462)**
Movement in share-based payment reserve	**–**	**–**	**–**	**–**	**1**	**1**
Total transactions with owners	**–**	**–**	**–**	**(462)**	**1**	**(461)**
Balance at 30 June 2011	**1**	**1 743**	**12**	**1 372**	**300**	**3 428**

1. Investments in subsidiaries

	Issued ordinary capital R million		Effective percentage holding %		Investment in subsidiaries(3) R million		Amounts owing to subsidiary(4) R million	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Discovery Life Limited	**1 016**	1 016	**100**	100	**1 297**	1 297	**–**	–
Discovery Health (Proprietary) Limited	**271**	271	**100**	100	**469**	468	**830**	267
Vitality Healthstyle (Proprietary) Limited	*****	*	**100**	100	**7**	7	**–**	–
Discovery Life Investment Services (Proprietary) Limited	**3**	3	**100**	100	**3**	3	**–**	–
Discovery Life Collective Investments (Proprietary) Limited	**15**	15	**100**	100	**15**	15	**–**	–
Discovery Insure Limited	**163**	–	**100**	–	**163**	–	**–**	–
Destiny Health Inc(1)	**1 426**	1 405	**99**	99	**–**	62	**–**	–
Discovery Offshore Holdings Limited(2)	**2 875**	1 316	**100**	100	**1 896**	498	**–**	–
					3 850	2 350	**830**	267

** Issued ordinary capital and shares at cost are R1 000.*
(1) Incorporated in the United States of America.
(2) Incorporated in England and Wales.
(3) Investments in subsidiaries includes cost, less impairments and the value of share options issued to subsidiary staff.
(4) The amount owing to a subsidiary is included in the statement of financial position with current liabilities.

Discovery Holdings has pledged its share investment in Discovery Life Limited as security for the borrowings raised in the current financial year. See Company note 7 for details of the borrowings.

2. Investment in associate

R million	Company 2011	Company 2010
Investment in Ping An Health	**225**	–

Refer to Group note 9 for detailed disclosure of the investment in associate

3. Derivative assets

Forward exchange contracts – cash flow hedge	**–**	38
Non-current portion	**–**	38

Refer to page 194 for a detailed description of the derivative financial instruments listed above.

4. Loan to share incentive trust

Loan to share incentive trust	**149**	158
Decrease in loan	**(42)**	(22)
Interest receivable	**10**	13
	117	149

The loan will be repaid on delivery of the shares under the share incentive scheme.
Refer to Group note 33.

5. Loan to subsidiary

Loan to Discovery Offshore Holdings Limited	**555**	–
Exchange differences	**(11)**	–
Interest receivable	**19**	–
	563	–

The loan consists of two tranches of GBP35.5 million and GBP14.5 million, repayable on 7 September 2017 and 23 December 2015 respectively and carry interest at 400 base points above LIBOR.

6. Share capital and share premium

	Number of shares	Ordinary shares R million	Share premium R million	Total R million
At 1 July 2009	591 953 180	1	1 743	1 744
At 30 June 2010	591 953 180	1	1 743	1 744
Treasury shares cancelled	**(80 790)**	**–**	**–**	**–**
At 30 June 2011	**591 872 390**	**1**	**1 743**	**1 744**

The total authorised number of ordinary shares is 1 billion (2010: 1 billion), with a par value of 0.1 cent per share.

7. Borrowings at amortised cost

R million	Company 2011	Company 2010
Bank borrowings	**402**	–
	402	–
Current	**2**	–
Non-current	**400**	–
	402	–

Bank borrowings

In order to fund the acquisition of Standard Life Healthcare, Discovery borrowed R400 million from FirstRand Bank Limited. The salient terms of the loan are the following:

– Lender:	FirstRand Bank Limited
– Type of borrowings:	Senior debt
– Interest rate:	Fixed rate of 10.175% per annum
– Security:	Pledge of shares in Discovery Life Limited
– Maturity date:	10 September 2017
– Callable/Convertible:	Not applicable

The borrowings are repayable on maturity. Interest is paid quarterly.
The fair value at 30 June 2011 was R393 million.

8. Deferred income tax

	Company 2011	Company 2010
Non-current deferred tax liability	**–**	(7)
Movement summary:		
Balance at beginning of year	**(7)**	–
Deferred tax on cash flow hedge charged to equity	**7**	(7)
Balance at end of year	**–**	(7)

9. Cash flow information

9.1 Cash (utilised)/generated by operations

	Company 2011	Company 2010
Profit before taxation	**1 645**	736
Adjusted for:		
Investment income	**(1 953)**	(1 070)
Finance costs	**44**	–
Foreign exchange losses	**13**	–
Non-cash items:		
Impairment of investments in subsidiaries	**244**	299
Working capital changes:		
Trade and other payables	**565**	7
	558	(28)

R million		Company 2011	Company 2010
9.2	**Taxation paid**		
	Balance at beginning of year	**(2)**	(5)
	Taxation charged for the year in the statement of comprehensive income	**(50)**	(43)
	Balance at end of year	**1**	2
		(51)	(46)
9.3	**Increase in investments in subsidiaries**		
	Balance at beginning of year	**2 350**	2 016
	Impairment of investments in subsidiaries	**(244)**	(299)
	Share-based payment expense in respect of subsidiaries	**1**	6
	Effective hedge capitalised	**12**	–
	Balance at end of year	**(3 850)**	(2 350)
	Increase in investments in subsidiaries	**(1 731)**	(627)
9.4	**Purchase of investment in associate**		
	Purchase of investment in Ping An Health	**(225)**	–
	Refer to Group note 9 for detailed disclosure of the Investment in associate.		
9.5	**Decrease in loan to share incentive trust**		
	Balance at beginning of year	**149**	158
	Interest receivable	**10**	13
	Balance at end of year	**(117)**	(149)
		42	22
9.6	**Increase in loan to subsidiary**		
	Balance at end of year	**(563)**	–
	Interest accrual on borrowings	**19**	–
	Exchange differences	**(11)**	–
		(555)	–
9.7	**Increase in borrowings**		
	Balance at end of year	**402**	–
	Interest accrual on borrowings	**(2)**	–
		400	–
9.8	**Cash and cash equivalents**		
	Cash at bank and in hand	**(89)**	8
	Short-term deposits	**–**	47
		(89)	55

10. Contingencies

Discovery Holdings Limited has provided a guarantee in favour of HSBC Bank in the amount of US$20 million for the working capital facility of Destiny Health Inc.

Discovery Holdings Limited has also provided the following guarantees:

– In terms of the shareholders' agreement between Discovery Offshore Holdings Limited, The Prudential Assurance Company Limited and Prudential Health Limited, Discovery Holdings Limited has guaranteed the obligations of Discovery Offshore Holdings Limited to The Prudential Assurance Company Limited and Prudential Health Limited in terms of this agreement.

– Discovery Health (Proprietary) Limited provides certain administration and ancillary services to PruHealth in terms of the Insurance Intermediary Services agreement. Discovery Holdings Limited has guaranteed the obligations of Discovery Health (Proprietary) Limited in terms of this agreement.

– PruHealth has provided certain volume guarantees to its reinsurance providers. Discovery Holdings Limited has guaranteed these obligations.

– In terms of the Master Relationship Agreement with Humana Inc., Discovery Holdings Limited has guaranteed the obligations of The Vitality Group LLC to Humana.

11. Special resolutions

The following special resolutions were approved during the financial year:

At the Annual General Meeting of shareholders held on Tuesday, 30 November 2010:

The Company and or any of its subsidiaries are authorised by general approval to acquire issued shares of the Company on such terms, conditions and in such amounts as determined from time to time by directors of the Company subject to the Articles of Association of the Company and limitations of the JSE Listings Requirements.

At a general meeting of shareholders held on 2 August 2011, the authorised share capital was increased as follows:

Number of shares	Class of shares	R'000
1 000 000 000	Ordinary shares of 0.1 cent per share	1 000
40 000 000	A preference shares	*
20 000 000	B preference shares	2 000 000
20 000 000	C preference shares	*

** Value of share capital to be determined in accordance with each relevant A preference share and C preference share resolution passed by directors of Discovery, as may be applicable.*

12. Events after reporting date

Preference share issue

On 15 August 2011, Discovery issued 8 000 000 B preference shares at an issue price of R100 per share by way of private placement. The B preference shares were listed on the JSE Securities Exchange South Africa under the abbreviated short name "DSY B PREF" with alpha code "DSBP" in the "Specialist Securities" – preference share sector of the market, and commenced trading on Monday, 15 August 2011.

Declaration of final dividend

The Board has declared a final dividend of 48 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 7 October 2011
– Date trading commences "ex" dividend	Monday, 10 October 2011
– Record date	Friday, 14 October 2011
– Date of payment	Monday, 17 October 2011

Share certificates may not be dematerialised or rematerialised between Monday, 10 October 2011 and Friday, 14 October 2011, both days inclusive.

Discovery Holdings directors and prescribed officers

Executive Directors	Non-executive Directors	Prescribed officers
A Gore	MI Hilkowitz	J Broomberg
R Farber	Dr BA Brink	K Rabson
HD Kallner (appointed 3 June 2010)	P Cooper	P Tlhabi
NS Koopowitz	SB Epstein	
HP Mayers	Dr TV Maphai	
A Pollard	V Mufamadi (appointed 3 June 2010)	
JM Robertson	AL Owen	
B Swartzberg	SE Sebotsa	
	T Slabbert	
	SV Zilwa	

Remuneration and fees

Payments to directors for the year ended 30 June 2011 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Gains made on share options	Provident fund contributions	Other benefits[1]	Total
EXECUTIVE								
A Gore	–	3 309	3 486	2 861	–	516	94	10 266
R Farber	–	2 681	2 391	2 200	–	134	54	7 460
HD Kallner	–	2 667	2 151	2 128	–	133	69	7 148
NS Koopowitz[2]	–	7 135	1 861	17 044	–	350	24	26 414
HP Mayers	–	2 963	3 652	2 574	–	593	128	9 910
A Pollard	–	2 450	2 775	2 636	–	194	92	8 147
JM Robertson	–	2 344	2 687	2 718	–	478	47	8 274
B Swartzberg	–	3 010	3 270	2 593	–	318	71	9 262
Sub-total	–	26 559	22 273	34 754	–	2 716	579	86 881
PRESCRIBED OFFICERS[3]								
J Broomberg	–	2 836	1 907	2 316	–	213	64	7 336
K Rabson	–	2 378	1 477	2 080	–	297	194	6 426
P Tlhabi	–	2 108	2 086	1 698	1 751	105	45	7 793
Sub-total	–	7 322	5 470	6 094	1 751	615	303	21 555
NON-EXECUTIVE								
MI Hilkowitz	1 853	–	–	–	–	–	–	1 853
Dr BA Brink[4]	360	–	–	–	–	–	–	360
P Cooper[5]	651	–	–	–	–	–	–	651
SB Epstein	460	–	–	–	–	–	–	460
Dr TV Maphai	241	–	–	–	–	–	–	241
V Mufamadi	241	–	–	–	–	–	–	241
AL Owen	1 014	–	–	–	–	–	–	1 014
SE Sebotsa	360	–	–	–	–	–	–	360
T Slabbert[6]	468	–	–	–	–	–	–	468
SV Zilwa	661	–	–	–	–	–	–	661
Sub-total	6 309	–	–	–	–	–	–	6 309
Total	6 309	33 881	27 743	40 848	1 751	3 331	882	114 745
Less: paid by subsidiaries	(6 309)	(33 881)	(27 743)	(40 848)	(1 751)	(3 331)	(882)	(114 745)
Paid by holding company	–	–	–	–	–	–	–	–

(1) "Other benefits" comprise medical aid contributions, travel and other allowances.
(2) Over June and July 2010, NS Koopowitz was paid out all his phantom shares and bonuses in preparation for his emigration to the United Kingdom.
(3) No comparatives have been provided for the remuneration paid to prescribed officers as they have only been defined as prescribed officers in terms of the Companies Act (Act 71 of 2008), from the current financial year.
(4) Director's fees for services rendered by Dr BA Brink were paid to Anglo American South Africa Limited.
(5) Director's fees for services rendered by P Cooper were paid to RMB Holdings Limited.
(6) Director's fees for services rendered by T Slabbert were paid to WDB Investment Holdings (Proprietary) Limited.

Remuneration and fees CONTINUED

Payments to directors for the year ended 30 June 2010 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits[1]	Total
EXECUTIVE							
A Gore	–	2 297	4 670	924	480	84	8 455
R Farber	–	2 496	1 963	849	124	50	5 482
HD Kallner[2]	–	207	–	–	10	5	222
NS Koopowitz[3]	–	3 169	4 524	17 424	158	100	25 375
HP Mayers	–	2 763	4 560	1 037	549	114	9 023
A Pollard	–	2 314	3 475	773	174	84	6 820
JM Robertson	–	2 109	3 754	980	422	41	7 306
B Swartzberg	–	2 471	3 953	1 005	296	55	7 780
Sub-total	–	17 826	26 899	22 992	2 213	533	70 463
NON-EXECUTIVE							
MI Hilkowitz	1 896	–	–	–	–	–	1 896
Dr BA Brink[4]	274	–	–	–	–	–	274
P Cooper[5]	584	–	–	–	–	–	584
SB Epstein	470	–	–	–	–	–	470
Dr TV Maphai	394	–	–	–	–	–	394
AL Owen	976	–	–	–	–	–	976
SE Sebotsa	334	–	–	–	–	–	334
T Slabbert[6]	424	–	–	–	–	–	424
SV Zilwa	579	–	–	–	–	–	579
Sub-total	5 931	–	–	–	–	–	5 931
Total	5 931	17 826	26 899	22 992	2 213	533	76 394
Less: paid by subsidiaries	(5 931)	(17 826)	(26 899)	(22 992)	(2 213)	(533)	(76 394)
Paid by holding company	–	–	–	–	–	–	–

(1) "Other benefits" comprise medical aid contributions, travel and other allowances.
(2) Salary only included from date of appointment.
(3) Over June and July 2010, NS Koopowitz was paid out all his phantom shares and bonuses in preparation for his emigration to the United Kingdom.
(4) Director's fees for services rendered by Dr BA Brink were paid to Anglo American South Africa Limited.
(5) Director's fees for services rendered by P Cooper were paid to RMB Holdings Limited.
(6) Director's fees for services rendered by T Slabbert were paid to WDB Investment Holdings (Proprietary) Limited.

The executive directors participate in Group share incentive schemes. Their participation is subject to the approval of the Discovery Remuneration Committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

Phantom share scheme

Refer to Group note 33.1 for detailed disclosure of the phantom share scheme. Outstanding units in respect of the phantom share scheme as at 30 June 2011 issued to directors were:

Discovery phantom scheme	Outstanding shares	Date granted	Strike price R	Final vesting date	Value at 30 June 2011 R
R Farber	43 313	30/09/2006	22.30	30/09/2011	**715 765**
	4 375	30/09/2006	0.00	30/09/2011	**168 656**
	12 375	30/09/2007	26.40	30/09/2012	**165 341**
	11 250	30/09/2007	0.00	30/09/2012	**433 688**
	40 125	30/09/2008	0.00	30/09/2013	**1 546 819**
	307 912	01/07/2009	0.00	30/06/2011	**11 870 008**
	52 567	30/09/2009	0.00	30/09/2014	**2 026 458**
	42 903	30/09/2010	0.00	30/09/2015	**1 653 911**
A Gore	57 750	30/09/2006	22.30	30/09/2011	**954 354**
	33 000	30/09/2007	26.40	30/09/2012	**440 911**
	10 000	30/09/2007	0.00	30/09/2012	**385 500**
	56 250	30/09/2008	0.00	30/09/2013	**2 168 438**
	52 567	30/09/2009	0.00	30/09/2014	**2 026 458**
	42 903	30/09/2010	0.00	30/09/2015	**1 653 911**
HD Kallner	28 875	30/09/2006	22.30	30/09/2011	**477 177**
	8 750	30/09/2006	0.00	30/09/2011	**337 313**
	12 375	30/09/2007	26.40	30/09/2012	**165 341**
	11 250	30/09/2007	0.00	30/09/2012	**433 688**
	40 125	30/09/2008	0.00	30/09/2013	**1 546 819**
	307 912	01/07/2009	0.00	30/06/2011	**11 870 008**
	32 300	30/09/2009	0.00	30/09/2014	**1 245 165**
	42 903	30/09/2010	0.00	30/09/2015	**1 653 911**
HP Mayers	17 500	30/09/2006	0.00	30/09/2011	**674 625**
	33 000	30/09/2007	26.40	30/09/2012	**440 911**
	10 000	30/09/2007	0.00	30/09/2012	**385 500**
	56 250	30/09/2008	0.00	30/09/2013	**2 168 438**
	395 369	01/07/2009	0.00	30/06/2011	**15 241 475**
	52 567	30/09/2009	0.00	30/09/2014	**2 026 458**
	42 903	30/09/2010	0.00	30/09/2015	**1 653 911**
A Pollard	57 750	30/09/2006	22.30	30/09/2011	**954 354**
	49 500	30/09/2007	26.40	30/09/2012	**661 366**
	5 000	30/09/2007	0.00	30/09/2012	**192 750**
	56 250	30/09/2008	0.00	30/09/2013	**2 168 438**
	296 734	01/07/2009	0.00	30/06/2011	**11 439 096**
	52 567	30/09/2009	0.00	30/09/2014	**2 026 458**
	42 903	30/09/2010	0.00	30/09/2015	**1 653 911**
JM Robertson	28 875	30/09/2006	22.30	30/09/2011	**477 177**
	8 750	30/09/2006	0.00	30/09/2011	**337 313**
	33 000	30/09/2007	26.40	30/09/2012	**440 911**
	10 000	30/09/2007	0.00	30/09/2012	**385 500**
	56 250	30/09/2008	0.00	30/09/2013	**2 168 438**
	296 734	01/07/2009	0.00	30/06/2011	**11 439 096**
	52 567	30/09/2009	0.00	30/09/2014	**2 026 458**
	42 903	30/09/2010	0.00	30/09/2015	**1 653 911**
B Swartzberg	28 875	30/09/2006	22.30	30/09/2011	**477 177**
	8 750	30/09/2006	0.00	30/09/2011	**337 313**
	33 000	30/09/2007	26.40	30/09/2012	**440 911**
	10 000	30/09/2007	0.00	30/09/2012	**385 500**
	56 250	30/09/2008	0.00	30/09/2013	**2 168 438**
	375 577	01/07/2009	0.00	30/06/2011	**14 478 493**
	52 567	30/09/2009	0.00	30/09/2014	**2 026 458**
	42 903	30/09/2010	0.00	30/09/2015	**1 653 911**

The phantom share scheme pays a bonus calculated on each vesting date linked to the share price. One quarter of the September issued units vest on each of the second, third, fourth and fifth anniversary of the grant date. The units issued in July 2009 all vest on 30 June 2011, subject to vesting criteria. In the calculation of the bonus, the participants could choose to replicate the economics of a Discovery share or a call option over a Discovery share or a combination of both for the 2006, 2007 and 2008 allocations and only that of a Discovery share for the 2009 and 2010 allocations.

Directors' interests

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act (Act 71 of 2008), directors of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June:

	Direct beneficial	Indirect beneficial	Total 2011	Direct beneficial	Indirect beneficial	Total 2010
Dr BA Brink	30 000	–	**30 000**	30 000	–	30 000
P Cooper	55 076	55 016	**110 092**	55 076	55 016	110 092
SB Epstein	34 750	–	**34 750**	34 750	–	34 750
R Farber	426 057	–	**426 057**	476 057	–	476 057
A Gore*	447 095	53 322 788	**53 769 883**	1 431 962	53 844 046	55 276 008
HD Kallner	167 661	–	**167 661**	167 661	–	167 661
NS Koopowitz	218 390	1 077 602	**1 295 992**	665 485	1 077 602	1 743 087
Dr TV Maphai	149	1 210 435	**1 210 584**	149	1 186 435	1 186 584
HP Mayers	602 806	7 724 497	**8 327 303**	602 806	7 724 497	8 327 303
AL Owen	30 668	–	**30 668**	30 668	–	30 668
A Pollard	2 180 935	–	**2 180 935**	2 180 935	–	2 180 935
JM Robertson	1 404 639	3 390 481	**4 795 120**	1 404 639	3 390 481	4 795 120
B Swartzberg*	4 153 322	24 963 265	**29 116 587**	4 153 322	24 963 265	29 116 587
SV Zilwa	–	77 760	**77 760**	–	214 920	214 920
	9 751 548	91 821 844	**101 573 392**	11 233 510	92 456 262	103 689 772

** During the year ended 30 June 2010, A Gore and B Swartzberg entered into hedging transactions over 12 124 588 and 4 259 990 shares respectively. These shares are still reflected as being owned by A Gore and B Swartzberg. Details of the transaction were declared on Securities Exchange News Service (SENS) on 30 December 2009.*

There has been no change in the directors' interests in Discovery Holdings Limited's shares between 30 June 2011 and the date of the publication of this Integrated Annual Report.

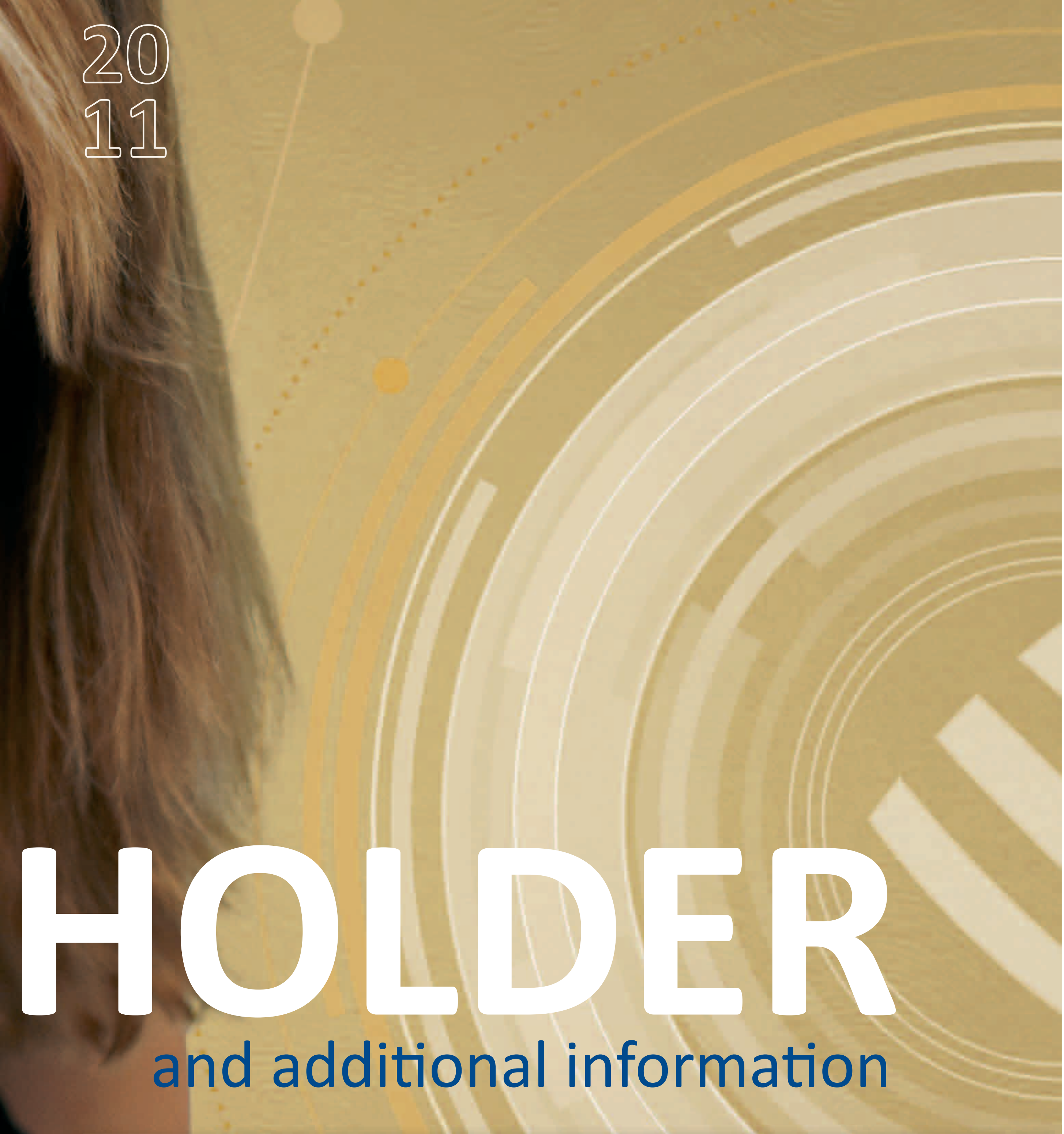
Analysis of shareholders

For the year ended 30 June 2011

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	11 994	68.20	3 942 622	0.67
1 001 – 10 000 shares	4 438	25.24	13 357 144	2.26
10 001 – 100 000 shares	813	4.62	27 451 148	4.64
100 001 – 1 000 000 shares	258	1.47	81 133 766	13.71
1 000 001 shares and over	82	0.47	465 987 710	78.72
	17 585	**100.00**	**591 872 390**	**100.00**
Distribution of shares				
Banks	123	0.70	35 949 008	6.07
Brokers	36	0.20	22 491 639	3.80
Close Corporations	121	0.69	338 115	0.06
Empowerment	6	0.03	51 136 431	8.64
Endowment funds	134	0.76	2 673 963	0.45
Individuals	13 533	76.96	35 480 606	5.99
Insurance companies	84	0.48	18 504 145	3.13
Investment companies	17	0.10	6 626 045	1.12
Medical aid schemes	19	0.11	658 770	0.11
Mutual funds	273	1.55	70 859 667	11.98
Nominees and trusts	2 495	14.19	32 284 146	5.45
Other corporations	99	0.56	182 262	0.03
Private companies	365	2.08	63 898 124	10.80
Public companies	11	0.06	148 167 852	25.03
Retirement funds	269	1.53	102 621 617	17.34
	17 585	**100.00**	**591 872 390**	**100.00**
Public/non-public shareholders				
Non-public shareholders	**59**	**0.33**	**304 288 564**	**51.40**
Directors of the Company holdings	39	0.22	101 573 770	17.16
Empowerment	6	0.03	51 013 000	8.62
Own holdings	1	0.01	680 268	0.11
Related parties	11	0.06	2 973 358	0.50
Strategic holdings (more than 10%)	2	0.01	148 048 168	25.01
Public shareholders	**17 526**	**99.67**	**287 583 826**	**48.60**
	17 585	**100.00**	**591 872 390**	**100.00**

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Insurance Holdings Limited	148 048 168	25.01
A Gore	53 769 883	9.08
Government Employees Pension Fund	53 397 162	9.02


SHARE



HOLDER

and additional information

The following financial information has not been audited and has been provided for information purposes only.

Value creators

New business annualised premium income

New business annualised premium income decreased 2% for the year ended 30 June 2011.

R million	June 2011	June 2010	% change
Discovery Health	**3 904**	4 502	(13)
Discovery Life	**1 620**	1 542	5
Discovery Invest	**853**	761	12
Discovery Vitality	**182**	177	3
PruHealth	**609**	409	49
PruProtect	**290**	227	28
New business API of Group	**7 458**	7 618	(2)

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies. It also includes both automatic premium increases and servicing increases on existing policies.

Gross inflows under management

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

Gross inflows under management increased 21% for the year ended 30 June 2011. 6% of the increase is attributable to the gross inflows from PruHealth Insurance Limited (previously Standard Life Healthcare) being included from 1 August 2010.

R million	June 2011	June 2010	% change
Discovery Health	**31 873**	28 101	13
Discovery Life	**5 220**	4 405	19
Discovery Invest	**7 309**	6 083	20
Discovery Vitality	**1 410**	1 176	20
Destiny Health	**–**	4	
PruHealth	**3 880**	1 278	204
PruProtect	**360**	188	91
Gross inflows under management	**50 052**	41 235	21
Less: collected on behalf of third parties	**(32 198)**	(28 813)	(12)
Discovery Health	**(28 362)**	(24 945)	(14)
Discovery Invest	**(3 772)**	(3 131)	(20)
Destiny Health	**–**	(3)	
PruHealth	**(54)**	(639)	
PruProtect	**(10)**	(95)	
Gross income of Group	**17 854**	12 422	44

Profit from operations

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

R million	June 2011	June 2010	% change
Discovery Health	**1 357**	1 195	14
Discovery Life	**1 558**	1 341	16
Discovery Invest	**101**	7	>100
Discovery Vitality	**18**	10	80
PruHealth	**61**	(148)	>100
PruProtect	**(51)**	(41)	(24)
Profit from existing operations	**3 044**	2 364	29
Development and other segments	**(206)**	(217)	5
Normalised profit from operations	**2 838**	2 147	32
Recapture of reinsurance	**(313)**	–	
Gains and losses resulting from business combinations	**609**	–	
DAC expense reversed due to business combination	**137**	–	
Amortisation of intangibles from business combinations	**(97)**	–	
Write-off of software from business combination	**(95)**	–	
Realised gains from the disposal of intellectual property	**87**	–	
Realised gains from the disposal of investment property	**122**	–	
Investment income attributable to equity holders	**147**	167	
Net realised gains on available-for-sale financial assets	**202**	200	
Finance costs and foreign exchange loss	**(182)**	(17)	
Share of loss from associate	**(4)**	–	
Profit before tax	**3 451**	2 497	38

From 1 August 2010, PruHealth and PruProtect have been accounted for as subsidiaries in the Group results, previously accounted for as joint ventures. This means that the comparatives disclosed include the income, expenses, assets and liabilities of these companies at 50%, but at 100% in the current results, from 1 August 2010.

Statement of financial position

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

R million	June 2011	June 2010	% change
Health South Africa and Vitality	**585**	827	(29)
Life and Invest	**7 056**	6 936	2
Insure	**92**	–	
Destiny	**172**	62	177
PruHealth	**2 066**	542	281
PruProtect	**(585)**	(241)	(143)
Goodwill and intangibles from business combinations	**2 013**	–	
Puttable non-controlling interests	**(2 314)**	–	
Long-term borrowings	**(402)**	–	
Consolidation entries	**286**	256	12
	8 969	8 382	7

The following significant movements occurred in the statement of financial position for the year ended 30 June 2011:

- The increase in the assets arising from insurance contracts of R1 968 million is primarily as a result of profitable new business written by Discovery Life.
- In May 2011, Discovery disposed of its Investment Property and a gain of R122 million has been disclosed in the income statement but is excluded from headline earnings.
- Goodwill arises from the acquisition of Standard Life Healthcare and the related capital restructure on 31 July 2010. Refer to Group note 8.
- Investment in associates is in respect of the acquisition of 20% of the share capital of Ping An Health Insurance Company of China, Ltd and the formation of Humana Vitality LLC in which Discovery has a 25% shareholding. Refer to Group note 9.
- Financial assets have increased due to the sale of Discovery Invest products and the inclusion of Standard Life Healthcare money market investments of R821 million.
- Borrowings at amortised cost, includes a long-term loan of R400 million raised as part of the funding to purchase Standard Life Healthcare. Interest on the loan is payable quarterly, for which a fixed interest rate swap has been entered into. The loan is repayable on 11 September 2017.

Statement of financial position CONTINUED

- During the financial year, put options were granted to the non-controlling interests of three of Discovery's subsidiaries. The put options entitle the non-controlling interest to sell its interest in the subsidiary to Discovery at contracted dates. In accordance with IAS32, Discovery has recognised the fair value of the non-controlling interest, being the present value of the estimated purchase price, as a financial liability in the statement of financial position (Puttable non-controlling interests). Refer to Group note 20.
- 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.

Other significant transactions affecting the current results

Share-based payments

Included in marketing and administration expenses is R177 million (2010: R232 million) in respect of options granted under employee share incentive schemes expensed in accordance with the requirements of IFRS 2.

The Group entered into transactions to hedge its exposure in the phantom share scheme related to changes in the Discovery share price. As at 30 June 2011, approximately 82.7% (2010: 50.8%) of this exposure was hedged.

Taxation

Taxation has been raised for all South African entities, with the exception of Discovery Insure. South African income tax has been provided at 28% (2010: 28%) and secondary tax on companies at 10% in the financial statements and embedded value statements.

Discovery obtained no tax relief for the PruHealth losses in respect of the calendar year ending 31 December 2010.

Discovery obtained tax relief for half of the PruHealth losses in respect of the calendar year ending 31 December 2009, as this tax asset was ceded to Prudential Assurance Company in the United Kingdom (PAC). R10 million in respect of this tax relief has been included in income tax at 30 June 2010.

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

Embedded value

The embedded value of Discovery, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business less an allowance for the cost of capital, was R26.9 billion at 30 June 2011 (2010: R22.6 billion). The embedded value calculation includes the shareholders' net assets at the values reflected in the statement of financial position on page 162.

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

R million	Health and Vitality	Life and Invest	PruHealth	Other	Total
Value of in-force business at 30 June 2010	9 462	9 437	160	–	**19 059**
Expected return (in-force business)	995	1 016	27	–	**2 038**
Release of profits (in-force business)	(1 161)	(644)	105	–	**(1 700)**
Value of new business	682	2 287	114	–	**3 083**
Expected return (new business)	38	103	8	–	**149**
Release of profits (new business)	0	38	0	–	**38**
Experience variances	649	108	(1)	–	**756**
Methodology changes	769	(595)	(168)	–	**6**
Acquisition of SLHC and Prudential joint venture	–	–	705	–	**705**
PruProtect value of in-force	–	–	–	169	**169**
Other	–	14	(15)	–	**(1)**
Value of in-force business at 30 June 2011	**11 434**	**11 764**	**935**	**169**	**24 302**
Shareholders' funds per statement of financial position	585	7 056	2 066	(738)	**8 969**
Adjustment to shareholders' funds	–	(6 126)	(93)	(162)	**(6 381)**
Embedded value at 30 June 2011	**12 019**	**12 694**	**2 908**	**(731)**	**26 890**

More detail on the components of each of these items, including the methodology and assumptions made in calculating the embedded value of Discovery, can found in the embedded value statement on pages 134 to 141.

Reconciliation of embedded value earnings

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

R million	Year to 30 June 2011	Value of in-force less cost of STC	Cost of capital	Impact on income statement	Change in adjustment to share-holders' funds	Statement of changes in equity
Total profit from new business (at point of sale)	**1 522**	3 144	(61)	(1 561)	–	–
– Health and Vitality	**489**	697	(15)	(193)	–	–
– Life	**993**	2 322	(35)	(1 294)	–	–
– PruHealth	**40**	125	(11)	(74)	–	–
Profit from existing business						
Expected return	**2 235**	521	4	1 710	–	–
– Health and Vitality	**1 068**	(133)	5	1 196	–	–
Expected transfer from VIF & VNB to net worth	**35**	(1 161)	–	1 196	–	–
Unwinding of the risk discount rate	**1 033**	1 028	5	–	–	–
– Life	**1 135**	516	(4)	623	–	–
Expected transfer from VIF & VNB to net worth	**17**	(606)	–	623	–	–
Unwinding of the risk discount rate	**1 118**	1 122	(4)	–	–	–
– PruHealth	**32**	138	3	(109)	–	–
Expected transfer from VIF & VNB to net worth	**(4)**	105	–	(109)	–	–
Unwinding of the risk discount rate	**36**	33	3	–	–	–
Change in methodology and assumptions	**573**	(14)	20	567	–	–
– Health and Vitality	**769**	763	6	–	–	–
– Life	**103**	(616)	21	698	–	–
– PruHealth	**(299)**	(161)	(7)	(131)	–	–
Experience variances	**628**	752	4	(128)	–	–
– Health and Vitality	**664**	655	(6)	15	–	–
– Life	**61**	99	9	(47)	–	–
– PruHealth	**(97)**	(2)	1	(96)	–	–
Acquisition of Prudential joint venture	**(35)**	802	(97)	770	(1 510)	–
PruProtect value of in-force	**124**	197	(28)	(45)	–	–
Other initiatives	**(195)**	13	–	(208)	–	–
Non-recurring expenses	**(28)**	–	–	(28)	–	–
Acquisition costs	**(2)**	1	–	(3)	–	–
Finance costs	**(38)**	–	–	(38)	–	–
Foreign exchange rate movements	**(168)**	(18)	3	(7)	–	(146)
Return on shareholders' funds	**139**	–	–	261	–	(122)
– Unrealised gain on investments and realised gain on investments transferred to income statement	**(122)**	–	–	–	–	(122)
– Health and Vitality investment income	**20**	–	–	20	–	–
– Life investment income	**239**	–	–	239	–	–
– PruHealth investment income	**2**	–	–	2	–	–
Share-based payments	**0**	–	–	(2)	–	2
Puttable non-controlling interests liability	**0**	–	–	–	1 301	(1 301)
Other changes in adjustment to shareholders funds	**0**	–	–	1 289	(1 289)	–
Embedded value earnings	**4 755**	5 398	(155)	2 577	(1 498)	(1 567)

Administration

For the year ended 30 June 2011

Discovery Holdings Limited

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

Registered office

155 West Street
Sandton
2196

PO Box 786722
Sandton
2146

Telephone (011) 529 2888
Fax (011) 539 2958
e-mail: AskTheCFO@discovery.co.za

Secretary

MJ Botha

Auditors

PricewaterhouseCoopers Inc.

Statutory Valuator

RD Williams

Transfer Secretaries

Computershare Investor Services (Proprietary) Limited
(Registration number 2004/003647/07)

Ground Floor
70 Marshall Street
Johannesburg
2001

PO Box 61051
Marshalltown
2017

Attorneys

Edward Nathan Sonnenbergs
(Registration number 2006/018200/21)

150 West Street
Sandton
2146

PO Box 783347
Sandton
2146

Sponsors

(In terms of the JSE Limited Listings Requirements)
RMB Corporate Finance
1 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

Financial calendar

Financial year-end	30 June
Annual General Meeting	6 December 2011

Reports

Interim results	February
Annual results	September
Integrated Annual Report	November

Dates are subject to change.

Discovery Holdings Limited

(Registration number: 1999/007789/06)
ISIN: ZAE000022331
Share code: DSY
(the Company)

Notice is hereby given in terms of section 62(1) of the Companies Act No. 71 of 2008, (Companies Act) that the twelfth Annual General Meeting of the Company will be held in the Auditorium, Ground Floor, 155 West Street, on Tuesday, 6 December 2011 at 12h00 to – (i) consider and, if deemed fit to pass, with or without modification, the resolutions set out below; and (ii) deal with such other business as may be dealt with at the Annual General Meeting.

The Board of Directors of the Company has determined that the record date for the purpose of determining which shareholders of the Company are entitled to receive notice of the twelfth Annual General Meeting was Friday, 21 October 2011, and the record date for purposes of determining which shareholders of the Company are entitled to participate in and vote at the Annual General Meeting is Friday, 2 December 2011. Accordingly, only shareholders of the Company who are registered in the securities register of the Company on Friday, 2 December 2011 will be entitled to participate in and vote at the Annual General Meeting. Therefore the last day to trade in the Company's shares in order to be recorded on the securities register of the Company in order to be able to attend, participate in and vote at the Annual General Meeting is Friday, 25 November 2011.

Electronic participation in the Annual General Meeting

Please note that the Company intends to make provision for shareholders of the Company, or their proxies, to participate in the Annual General Meeting by way of electronic communication. In this regard, shareholders or their proxies may participate in the Annual General Meeting by way of a teleconference call and, if they wish to do so:

- must contact the Company Secretary (by email at the address thysb@discovery.co.za) no later than 12h00 on Friday, 2 December 2011 in order to obtain dial-in details for that conference call; and
- will be required to provide reasonably satisfactory identification. Forms of identification include a green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport.

Please note that the costs of the electronic communication described above will be for the account of the Company.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own-name" registration are entitled to attend and vote at the Annual General Meeting. Any such shareholder is entitled to appoint one or more proxy or proxies to attend, participate in and speak and vote at the Annual General Meeting in his/her/its stead. A proxy does not have to be shareholders of the Company.

Kindly note that, meeting participants (including proxies) are required in terms of section 63(1) of the Companies Act to provide reasonably satisfactory identification before being entitled to attend or participate in the Annual General Meeting. Forms of identification include a green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport.

This notice of the Annual General Meeting includes the attached proxy form. The attention of shareholders is directed to the additional notes and instructions relating to the attached form of proxy, which notes and instructions are set out in the form of proxy.

Memorandum of Incorporation

Until the Companies Act came into effect on 1 May 2011, the Memorandum of Incorporation (MOI) of the Company comprised its Memorandum of Association and Articles of Association. On the date that the Companies Act came into effect, the Memorandum of Association and Articles of Association of the Company became the Company's MOI. Accordingly, for consistency of reference in this Notice of Annual General Meeting, the term "MOI" or "Memorandum of Incorporation" is used throughout to refer to the Company's MOI (which previously comprised the Company's Memorandum of Association and Articles of Association, as aforesaid).

All references in this Notice of Annual General Meeting (including all of the ordinary and special resolutions contained herein) to the Company's MOI refer to provisions of that portion of the Company's Memorandum of Association and/or Articles of Association (as the case may be).

Ordinary resolutions

1. Consideration of Annual Financial Statements

Ordinary Resolution Number 1

Resolved that the audited Annual Financial Statements, including the Directors' Report, Auditor's Report and the Report by the Audit and Risk Committee of the Company and the Group for the year ended 30 June 2011 are accepted.

Additional information in respect of Ordinary Resolution Number 1

The complete audited Annual Financial Statements, including the Directors' Report, Auditor's Report and the Report by the Audit and Risk Committee, of the Company and the Group for the year ended 30 June 2011, are included in the Integrated Annual Report of which this notice forms part.

2. Re-appointment of External Auditor

Ordinary Resolution Number 2

Resolved that PricewaterhouseCoopers Inc. is re-appointed, as the independent External Auditor of the Company, as nominated by the Company's Audit and Risk Committee, until the conclusion of the next Annual General Meeting. It is noted that Mr Andrew Taylor is the individual registered auditor who will undertake the audit for the financial year ending 30 June 2012.

Additional information in respect of Ordinary Resolution Number 2

In accordance with section 90 of the Companies Act, PricewaterhouseCoopers Inc. is proposed to be re-appointed as the External Auditors of the Company, as nominated by the Company's Audit and Risk Committee, until the conclusion of the Company's next Annual General Meeting.

3. Election of independent Audit and Risk Committee

Ordinary Resolution Number 3 (comprising Ordinary Resolutions Number 3.1 to 3.3 (inclusive))

Resolved that by way of separate ordinary resolutions each of –

3.1 Mr Les Owen, who is an independent Non-executive Director of the Company, be and is hereby elected as a member and the Chairperson of the Company's Audit and Risk Committee for the financial year ending 30 June 2012, subject to his re-election as a Director pursuant to Ordinary Resolution Number 4.3.

3.2 Ms Sindi Zilwa, who is an independent Non-executive Director of the Company, be and is hereby elected as a member of the Company's Audit and Risk Committee for the financial year ending 30 June 2012.

3.3 Ms Sonja Sebotsa, who is an independent Non-executive Director of the Company, be and is hereby elected as a member of the Company's Audit and Risk Committee for the financial year ending 30 June 2012, subject to her re-election as a Director pursuant to Ordinary Resolution Number 4.4.

Additional information in respect of Ordinary Resolution Number 3

In terms of section 94(2) of the Companies Act the Audit Committee is a committee elected by shareholders at each Annual General Meeting. A brief CV of each of the independent Non-executive Directors mentioned above appear on pages 98 to 99 of the Integrated Annual Report of which this notice forms part of. In terms of the Companies Act Regulations, at least one-third of the members of the Company's Audit Committee must have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. The Board of Directors of the Company is satisfied that the Company's Audit Committee members are suitably skilled, experienced as contemplated in Regulation 42 of the Companies Regulations and collectively they have the sufficient qualifications and experience to fulfil their duties as contemplated in section 94(7) of the Companies Act.

4. Re-election and appointment of Directors

Ordinary Resolution Number 4 (comprising Ordinary Resolutions Number 4.1. to 4.6 (inclusive))

Mr Les Owen, Ms Sonja Sebotsa, Dr Vincent Maphai and Ms Tania Slabbert all retire in accordance with article 30.1 of the Company's MOI and, being eligible, offer themselves for re-election.

Mr Jannie Durand and Dr Ayanda Ntsaluba have been appointed by the Board of Directors of the Company to the Board of Directors of the Company and are nominated for election by shareholders as Directors of the Company.

Accordingly, shareholders are requested to consider and, if deemed fit, to re-elect Mr Les Owen, Ms Sonja Sebotsa, Dr Vincent Maphai and Ms Tania Slabbert and to confirm the appointment of Mr Jannie Durand and Dr Ayanda Ntsaluba as Directors appointed to the Board of Directors of the Company by way of passing the separate ordinary resolutions set out below:

Ordinary Resolutions Number 4.1 to 4.6 (inclusive)

Directors appointed during the year:

4.1 Resolved that Mr Jannie Durand be and is hereby elected as a Non-executive Director of the Company;

4.2 Resolved that Dr Ayanda Ntsaluba be and is hereby elected as an Executive Director of the Company;

Directors retiring by rotation:

4.3 Resolved that Mr Les Owen who retires in terms of article 30.1 of the Company's Memorandum of Incorporation and who, being eligible, offers himself for re-election, be and is hereby re-elected as a Director of the Company;

4.4 Resolved that Ms Sonja Sebotsa who retires in terms of article 30.1 of the Company's Memorandum of Incorporation and who, being eligible, offers herself for re-election, be and is hereby re-elected as a Director of the Company;

4.5 Resolved that Dr Vincent Maphai who retires in terms of article 30.1 of the Company's Memorandum of Incorporation and who, being eligible, offers himself for re-election, be and is hereby re-elected as a Director of the Company; and

4.6 Resolved that Ms Tania Slabbert who retires in terms of article 30.1 of the Company's Memorandum of Incorporation and who, being eligible, offers herself for re-election, be and is hereby re-elected as a Director of the Company.

Additional information in respect of Ordinary Resolutions Number 4.1 to 4.6

Article 30.10 of the Company's MOI provides that any person appointed as a Director of the Company by the Board to fill a casual vacancy or as an additional Director shall retire at the following Annual General Meeting in addition to the Directors retiring by rotation in terms of article 30.1. Article 30.1 provides that one third of the Company's Directors shall retire at every Annual General Meeting. Therefore, the reason for the proposed Ordinary Resolutions Number 4.1 to 4.6 (inclusive) is to elect, in accordance with the Company's MOI and by way of a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy, as required by section 68(1) of the Companies Act, Mr Les Owen, Ms Sonja Sebotsa, Dr Vincent Maphai, Ms Tania Slabbert, Mr Jannie Durand and Dr Ayanda Ntsaluba as directors of the Company. The effect of Ordinary Resolutions 4.1 to 4.6 (inclusive) is that Mr Les Owen, Ms Sonja Sebotsa, Dr Vincent Maphai, Ms Tania Slabbert, Mr Jannie Durand and Dr Ayanda Ntsaluba will be elected as Directors of the Company. A brief CV of each of the Directors mentioned above appears on pages 98 to 99 of the Integrated Annual Report of which this notice forms part.

5. Approval of Group remuneration policy

Ordinary Resolution Number 5

Resolved that the Group remuneration policy, as described in the Remuneration Report on pages 112 to 114 of the Integrated Annual Report of which this notice forms part of, is hereby approved by way of a non-binding advisory vote, as recommended in the King Code of Governance for South Africa 2009, commonly referred to as King III.

Additional information in respect of Ordinary Resolution Number 5

In terms of King III recommendations, every year, the Company's remuneration policy should be tabled for a non-binding advisory vote at the Annual General Meeting. The non-binding advisory vote is to enable shareholders to express their views on the remuneration policies adopted in the remuneration of executive directors and on their implementation. Accordingly, the shareholders are requested to endorse the Company's remuneration policy as recommended by King III.

6. Authority to implement special and ordinary resolutions

Ordinary Resolution Number 6

Resolved that any Director of the Company be and is hereby authorised to do all such things, sign all such documents and take all such actions as may be necessary for or incidental to the implementation of the ordinary and special resolutions to be proposed at the Annual General Meeting convened to consider this ordinary resolution.

Additional information in respect of Ordinary Resolution Number 6

The reason for Ordinary Resolution Number 6 is to authorise any Director to attend to the necessary to implement the special and ordinary resolutions passed at the Annual General Meeting and to sign all documentation required to record the special and ordinary resolutions. The effect of Ordinary Resolution Number 6 is that any Director will be authorised to attend on behalf of the Company.

Special resolutions

1. Approval of Non-executive Directors' remuneration – 2011/2012

Special Resolution Number 1

Resolved that payment of the following fees be approved as the basis for calculating the remuneration of the Non-executive Directors for their services as Directors of the Company for the financial year ending 30 June 2012:

	2010/2011	Proposed 2011/2012
Retainer for the chairperson	US$262 500	R2 500 000
SA based board retainer	R241 000	R257 000
SA based committee chairperson retainer	R150 000	R160 000
SA based committee members retainer	R86 000	R92 000
SA based committee chairperson attendance fees	R16 000 per meeting	R17 000 per meeting
SA based committee member attendance fee	R11 000 per meeting	R11 700 per meeting
USA based board retainer	US$65 100	US$67 000
UK based board retainer	GBP49 600	GBP51 000
UK based committee chairperson retainer	GBP16 800	GBP17 300
UK based committee chairperson attendance fee	GBP2 100 per meeting	GBP2 160 per meeting
UK based committee member retainer	GBP6 700	GBP6 900
UK based committee member attendance fee	GBP840 per meeting	GBP865 per meeting

Additional information in respect of Special Resolution Number 1

In terms of section 66(8) and (9) of the Companies Act, which took effect on 1 May 2011, remuneration may only be paid to Directors for their services as Directors in accordance with a special resolution approved by the shareholders within the previous two years and if not prohibited in terms of the Company's MOI. Therefore, the reason for and the effect of Special Resolution Number 1 is to approve the payment of and the basis for calculating the remuneration payable by the Company to its Non-executive Directors for their services as Directors of the Company for the period ending 30 June 2012 in terms of section 66 of the Companies Act. The fees payable to the Non-executive Directors are detailed above. Further details on the basis of calculation of the remuneration are included in the Remuneration Report on page 114 of the Integrated Annual Report of which this notice forms part of.

2. General authority to repurchase shares

Special Resolution Number 2

Resolved that the Board is hereby authorised by a way of a renewable general authority, in terms of the provisions of the JSE Listings Requirements and as permitted in the Company's MOI, to approve the purchase of its own ordinary shares by the Company, and the purchase of ordinary shares in the Company by any of its subsidiaries, upon such terms and conditions and in such amounts as the Board may from time to time determine, but subject to the MOI of the Company, the provisions of the Companies Act and the JSE Listings Requirements, when applicable, and provided that:

2.1 the general repurchase by the Company and/or any subsidiary of the Company of ordinary shares in the aggregate in any one financial year do not exceed 5% of the Company's issued ordinary share capital as at the beginning of the financial year, provided that the acquisition of shares as treasury stock by a subsidiary of the Company shall not be effected to the extent that in aggregate more than 10% of the number of issued shares in the Company are held by or for the benefit of all the subsidiaries of the Company taken together;

2.2 any repurchase of securities will be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party (reported trades are prohibited);

2.3 this authority shall only be valid until the Company's next Annual General Meeting, provided that it shall not extend beyond 15 months from the date this resolution is passed;

2.4 the Company will only appoint one agent to effect any repurchase(s) on its behalf;

2.5 general repurchases by the Company and/or any subsidiary of the Company in terms of this authority, may not be made at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the 5 business days immediately preceding the date of the repurchase of such ordinary shares by the Company and/or any subsidiary of the Company;

2.6 any such general repurchases are subject to exchange control regulations and approvals at that point in time, where relevant;

2.7 a resolution has been passed by the Board of the Company and/or any subsidiary of the Company confirming that the Board has authorised the repurchase, that the Company satisfied the solvency and liquidity test contemplated in the Companies Act, and that since the test was done there have been no material changes to the financial position of the Group;

2.8 the Company and/or any subsidiary of the Company may not repurchase securities during a prohibited period, as defined in the JSE Listings Requirements, unless the Company has a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed and not subject to any variation and full details of the programme have been disclosed in an announcement over SENS (the Securities Exchange News Service) prior to the commencement of the prohibited period; and

2.9 a press announcement will be published giving such details as may be required in terms of the JSE Listings Requirements as soon as the Company and/or any subsidiary has cumulatively repurchased 3% of the number of shares in issue at the date of the passing of this resolution, and for each 3% in aggregate of the initial number of shares acquired thereafter.

The Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future, in particular the repurchase of shares by a subsidiary of the Company for purposes of employee share schemes. The Board undertakes that it will not implement the proposed authority to repurchase shares, unless the directors are of the opinion that, for a period of 12 months after the date of the repurchase:

2.10 the Company and the Group will be able in the ordinary course of business to pay its debts;

2.11 the assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the liabilities of the Company and the Group;

2.12 the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes; and

2.13 the working capital of the Company and the Group will be adequate for ordinary business purposes.

The Company will ensure that its sponsor has confirmed the adequacy of the Company's working capital in writing to the JSE in terms of the JSE Listings Requirements, prior to entering the market to proceed with a repurchase.

Additional information in respect of Special Resolution Number 2

The reason for and the effect of Special Resolution Number 2 is to grant the Company's Board of Directors a general authority in terms of the JSE Listing Requirements, up to and including the date of the following Annual General Meeting of the Company (provided that it shall not extend beyond 15 months from the date the resolution is passed), to approve the Company's purchase of shares in itself, or to permit a subsidiary of the Company to purchase shares in the Company and to authorise the Company or any of its subsidiaries to acquire shares issued by the Company in terms of the aforesaid approval. Please refer to the additional disclosure of information contained in this notice, which disclosure is required in terms of the JSE Listings Requirements.

3. Financial assistance in terms of section 44 and 45 of the Companies Act

Special Resolution Number 3

Resolved that, to the extent required by the Companies Act, the Board of Directors of the Company may, subject to compliance with the requirements of the Company's MOI, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance as contemplated in section 44 and/or section 45 of the Companies Act by way of loans, guarantees, the provision of security or otherwise, to –

3.1 any of its present or future subsidiaries and/or any other company or corporation that is or becomes related or inter-related to the Company for any purpose or in connection with any matter, including, but not limited to, the subscription of any option, or any securities issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company as contemplated in terms of section 44 of the Companies Act;

3.2 any of its present or future Directors or Prescribed Officers (or any person related to any of them or to any company or corporation related or inter-related to any of them), or to any other person who is a participant in any of the Group's share or other employee incentive schemes, for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company, where such financial assistance is provided in terms of any such scheme that does not satisfy the requirements of section 97 of the Companies Act, such authority to endure until the forthcoming Annual General Meeting of the Company.

Additional information in respect of Special Resolution Number 3

Notwithstanding the title of section 45 of the Companies Act, being "Loans or other financial assistance to directors", on a proper interpretation, the body of the section may also apply to financial assistance (as such term is defined therein) provided by a company to related or inter-related companies and corporations, including, inter alia, its subsidiaries, for any purpose.

Furthermore, section 44 of the Companies Act may also apply to financial assistance provided by a company to related or inter-related companies, in the event that the financial assistance is provided for the purposes of, or in connection with, the subscription of any options, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or related or inter-related company.

Both section 44 and section 45 of the Companies Act provide, inter alia, that the particular financial assistance must be provided pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and that the Board of Directors must be satisfied that – (i) immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test; and (ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

Therefore, the reason for Special Resolution Number 3 is to obtain approval from the shareholders to enable the Company to provide financial assistance, when the need arises, in accordance with the provisions of sections 44 and 45 of the Companies Act. The effect of Special Resolution Number 3 is that the Company will have the necessary authority to authorise and provide the financial assistance as and when required.

The Board undertakes that, in so far as the Companies Act requires, it will not adopt a resolution to authorise such financial assistance, unless the directors are satisfied that

(i) immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test as contemplated in the Companies Act; and

(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

To transact any other business that may be transacted at an Annual General Meeting

Additional disclosure of information

For the purposes of considering Special Resolution Number 2 and in compliance with the JSE Listings Requirements, the information listed below has been included in the Integrated Annual Report, in which this Notice of Annual General Meeting is included and forms part, at the following places:

- **Directors and management**
  Refer to page 101 of the Integrated Annual Report.

- **Major shareholders of the Company**
  Refer to page 249 of the Integrated Annual Report.

- **Directors' interests in securities**
  Refer to page 248 of the Integrated Annual Report.

- **Share capital of the Company**
  Refer to page 242 of the Integrated Annual Report.

- **Litigation statement**
  In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names appear on pages 98 to 101 of the Integrated Annual Report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the Group's financial position.

- **Directors' responsibility statement**
  The Directors, whose names appear on pages 98 to 101 of the Integrated Annual Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to Special Resolution Numbers 2 [and 3] and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that Special Resolution Number 2 contains all information required by law and the JSE Listings Requirements.

Approvals required for resolutions

Ordinary Resolutions Number 1 to 6 contained in this Notice of Annual General Meeting require the approval by more than 50% of the votes exercised on the resolutions by shareholders present or represented by proxy at the Annual General Meeting, and further subject to the provisions of the Companies Act, the Company's MOI and the JSE Listings Requirements.

Special Resolutions Number 1 to 3 contained in this Notice of Annual General Meeting require the approval by at least 75% of the votes exercised on the resolutions by shareholders present or represented by proxy at the Annual General Meeting, and further subject to the provisions of the Companies Act, the Company's MOI and the JSE Listings Requirements.

Notice of the Annual General Meeting of shareholders

For the year ended 30 June 2011

Attendance and voting by shareholders or proxies

The record date on which shareholders of the Company must be registered as such in the Company's securities register, which date was set by the Board of Directors of the Company determining which shareholders are entitled to attend and vote at the Annual General Meeting is Friday, 2 December 2011.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own-name" registration are entitled to attend and vote at the Annual General Meeting. Any such shareholder is entitled to appoint one or more proxy or proxies to attend, participate in and speak and vote at the Annual General Meeting in his/her/its stead. The person or persons so appointed as a proxy or proxies need not be a shareholder or shareholders of the Company.

Proxy forms must be lodge with or posted to the Company, PO Box 786722, Sandton 2146 or lodged with the Company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa or posted to the Company's transfer secretaries at PO Box 61051, Marshalltown, 2107, South Africa, so as to be received by them by not later than Monday, 5 December 2011 at 12h00 (South African time) on, being 24 hours before the Annual General Meeting to be held at 12h00 on Tuesday, 6 December 2011 in accordance with article 24 of the Company's MOI. Any forms of proxy not received by this time must be handed to the chairperson of the Annual General Meeting immediately prior to the commencement of the Annual General Meeting before your proxy may exercise any of your rights as a shareholder at the Annual General Meeting.

Proxy forms must only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares and registered them in their own name.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own-name" registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement, in order to furnish them with their voting instructions or to obtain the necessary authority to attend the Annual General Meeting, in the event that they wish to attend the Annual General Meeting.

On a poll, every shareholder of the Company shall have one vote for every share held in the Company by such shareholder.

Shares held by a share trust or scheme will not have their votes at the Annual General Meeting taken into account for purposes of resolutions proposed in terms of the JSE Listings Requirements. Shares held as treasury shares may also not vote.

Proof of identification required

Section 63(1) of the Companies Act requires that any person who wishes to attend or participate in a shareholders meeting, must present reasonably satisfactory identification at the Annual General Meeting. Any shareholder or proxy who intends to attend or participate at the Annual General Meeting must be able to present reasonably satisfactory identification at the Annual General Meeting for such shareholder or proxy to attend and participate at the Annual General Meeting. A green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted as sufficient identification.

Venue

Please take note that the Annual General Meeting will be held in the Auditorium, Ground Floor, 155 West Street, on Tuesday, 6 December 2011 at 12h00.

By order of the Board of Directors of the Company.

MJ Botha

Company Secretary

25 August 2011

Form of proxy

Discovery Holdings Limited

(Registration number: 1999/007789/06)
ISIN: ZAE000022331
Share code: DSY
(the Company)

This form of proxy is only for use by:

1. registered shareholders who have not yet dematerialised their shares in the Company; and
2. registered shareholders who have already dematerialised their shares in the Company and are registered in their own names in the Company's sub-register.*

For use by registered shareholders of the Company at the twelfth Annual General Meeting of the Company to be held in the Auditorium Ground Floor, 155 West Street on Tuesday, 6 December 2011 at 12h00 (the Annual General Meeting).

Each shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxy or proxies (who need not be a shareholder of the Company) to attend, participate in and speak and vote in place of that shareholder at the Annual General Meeting, and at any adjournment thereat.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own-name" registration, must not complete this form or proxy but should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement, in order to furnish them with their voting instructions or to obtain the necessary letter of authority to attend the Annual General Meeting, in the event that they wish to attend the Annual General Meeting.

Please note the following:

- the appointment of your proxy may be suspended at any time to the extent that you choose to act directly and in person in the exercise of your rights as a shareholder at the Annual General Meeting;
- the appointment of the proxy is revocable; and
- you may revoke the proxy appointment by – (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy, and the Company.

Kindly note that, meeting participants (including a proxy or proxies) are required in terms of section 63(1) of the Companies Act No. 71 of 2008 (the Companies Act) to provide reasonably satisfactory identification before being entitled to attend or participate in the Annual General Meeting. Forms of identification include a green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport.

A proxy may not delegate his/her authority to act on behalf of a shareholder of the Company to another person.

I/We (please print) ____________________ (name)

of ____________________ (address)

being the holder(s) of ____________________ ordinary shares in the Company, hereby appoint (see instruction 1 overleaf):

1. ____________________ or failing him/her,

2. ____________________ or failing him/her,

3. the Chairperson of the Annual General Meeting,

as my/our proxy to attend, participate in and speak and vote for me/us and on my/our behalf or to abstain from voting at the Annual General Meeting which will be held for the purposes of considering and, if deemed fit, passing the resolutions to be passed thereat, with or without modification, and at any adjournment thereof, in accordance with the instructions as follows (see note 2 and instruction 2 overleaf):

Insert the number of votes exercisable (one vote per share)

	For	Against	Abstain
Ordinary Resolutions			
1. Consideration of annual financial statements			
2. Reappointment of External Auditor			
3. Election of independent Audit and Risk Committee			
3.1 Mr Les Owen			
3.2 Ms Sindi Zilwa			
3.3 Ms Sonja Sebotsa			
4. Re-election of Directors			
4.1 Mr Jannie Durand			
4.2 Dr Ayanda Ntsaluba			
4.3 Mr Les Owen			
4.4 Ms Sonja Sebotsa			
4.5 Dr Vincent Maphai			
4.6 Ms Tania Slabbert			
5. Approval of remuneration policy			
6. Directors' authority to take all such actions necessary to implement the aforesaid ordinary resolutions and the special resolutions mentioned below			
Special Resolutions			
1. Approval of Non-executive Directors' remuneration – 2011/2012			
2. General authority to repurchase shares			
3. Authority to provide financial assistance in terms of section 44 and 45 of the Companies Act			

Note: Insert an "X" in the relevant spaces above or the number of votes exercisable (one vote per share) according to how you wish your votes to be cast. An "X" in the relevant spaces above indicates the maximum number of votes exercisable. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you wish to vote (see instruction 3 overleaf).

Signed at ____________________ on ____________________ 2011.

Signature/s ____________________

Assisted by me (where applicable) ____________________

Please read the summary of the rights in respect of proxy appointments established by section 58 of the Companies Act, notes and instructions overleaf.

*See explanatory note 3 overleaf.

Notes to the form of proxy

Summary of shareholders rights in respect of proxy appointments as contained in section 58 of the Companies Act

Please note that in terms of section 58 of the Companies Act:

- this proxy form must be in writing, dated and signed by the shareholder appointing the proxy;
- you may appoint an individual as a proxy, including an individual who is not a shareholder of the Company, to participate in, and speak and vote at, the Annual General Meeting, on your behalf;
- your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this form of proxy;
- this form of proxy must be delivered to the Company, or to the Company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, before your proxy exercises any of your voting rights as a shareholder at the Annual General Meeting. Any form of proxy not received by the Company or the Company's transfer secretaries must be handed to the Chairperson of the Annual General Meeting before your proxy may exercise any of your voting rights as a shareholder at the Annual General Meeting;
- the appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly in person in the exercise of any of your rights as a shareholder at the Annual General Meeting;
- the appointment of your proxy is revocable unless you expressly state otherwise in this form of proxy;
- as the appointment of your proxy is revocable, you may revoke the proxy appointment by – (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy and to the Company. Please note that the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the proxy and the Company as aforesaid;
- if this form of proxy has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the Company's Memorandum of Incorporation (MOI) to be delivered by the Company to you must be delivered by the Company to you or your proxy or proxies, if you have directed the Company to do so, in writing, and paid any reasonable fees charged by the Company for doing so;
- your proxy is entitled to exercise, or abstain from exercising, any voting rights of yours without direction at the Annual General Meeting, except to the extent that this form of proxy provides otherwise; and
- the appointment of your proxy remains valid only until the end of the Annual General Meeting or any adjournment or postponement thereof, unless it is revoked by you before then on the basis set out above.

Explanatory notes

1. A shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxy or proxies to attend, participate in and speak and vote in his/her stead at the Annual General Meeting. A proxy need not be a shareholder of the Company. Satisfactory identification must be presented by any person wishing to attend the Annual General Meeting, as set out in the Notice of Annual General Meeting (to which this proxy form is included).
2. Every shareholder present in person or by proxy and entitled to vote at the Annual General Meeting of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such shareholder holds, but in the event of a poll, each shareholder shall be entitled to one vote in respect of each ordinary share in the Company held by him/her.
3. Shareholders who have dematerialised their shares in the Company and are registered in their own names are shareholders who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic sub-register of shareholders in their own names.

Instructions on signing and lodging the proxy form

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided overleaf, with or without deleting "the Chairperson of the Annual General Meeting", but any such deletion must be initialled by the shareholder. Should this space be left blank, the Chairperson of the Annual General Meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's voting instructions to the proxy must be indicated by the insertion of an "X" or the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. An "X" in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting, as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. Proxy forms must be lodged with or posted to the Company, PO Box 786722, Sandton, 2146 or lodged with the transfer secretaries of the Company, Computershare Investor Services (Proprietary) Limited, 70 Marshall Street, Johannesburg, 2001, South Africa or posted to the transfer secretaries of the Company at PO Box 61051, Marshalltown, 2107, South Africa, to be received by them not later than Monday, 5 December 2011 at 12h00 (South African time), being 24 hours before the Annual General Meeting to be held at 12h00 on Tuesday, 6 December 2011 in accordance with article 24 of the Company's MOI. Any forms of proxy not received by this time must be handed to the Chairperson of the Annual General Meeting immediately prior to the commencement of the Annual General Meeting.
5. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this proxy form unless previously recorded by the transfer secretaries of the Company or waived by the Chairperson of the Annual General Meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy or proxies appointed in terms hereof, should such shareholder wish to do so.
7. In the case of joint shareholders of the Company, the vote of the most senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholders, for which purpose seniority will be determined by the order in which the names appear on the Company's securities register in respect of the joint holding.
8. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
9. The Chairperson of the Annual General Meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a shareholder wishes to vote.
10. A proxy may not delegate his/her authority to act on behalf of the shareholder of the Company, to another person.

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