Discovery Annual Report 2008

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An important and successful year

Discovery's established businesses performed well despite a challenging economic environment. Discovery also launched two substantial businesses.

Group highlights

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

New business annualised premium income excluding Destiny Health **+18%** to **R4 799 million**

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

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

Final dividend of **23 cents per share**

Discovery

Group at a glance

Discovery

Operates in insurance markets in South Africa and the UK and strives to develop financial services products that clients need and want.

Discovery Health

100%

South Africa's leading private healthcare funder

Established in 1992
Covers over two million lives

Discovery Vitality

100%

Science-based wellness programme, differentiator and value creator

Established in 1997
Covers 1.3 million lives

Discovery Life

100%

South Africa's fastest growing major life assurer

Established in 2000
Covers 640 000 lives

Discovery Invest

100%

Provider of innovative long-term savings solutions

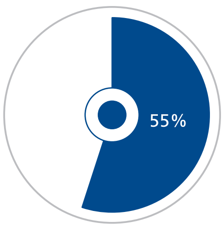
Established in 2007

Discovery Health and Discovery Vitality

New business annualised premium income

R million	
2008	2 834
2007	2 677
2006	2 612
2005	2 869
2004	2 184

Contribution to group

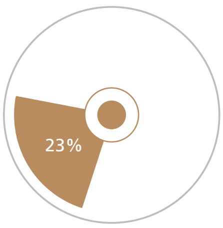


Discovery Life

New business annualised premium income

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

Contribution to group

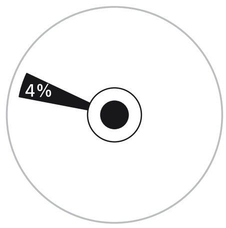


Discovery Invest

New business annualised premium income

R million	
2008	206

Contribution to group



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

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

The Discovery ethos of consumer-engaged financial services flows through all our businesses. It creates consumer demand for our products, ensuring strong organic growth and driving profitability for shareholders.

PRU PROTECTION
It pays to be healthy

50%

UK-based joint venture with Prudential plc, recently renamed and expanded to include: PruHealth and PruProtect

PRU HEALTH

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

Established in 2004
Covers 170 000 lives

PRU PROTECT
It pays to be healthy

UK-based life assurer introducing pure-risk products in the protection market

Established in 2007

Destiny Health

98%

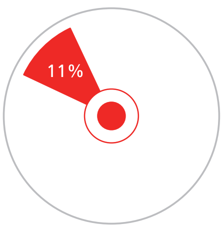
Discovery has commenced wind down of US health subsidiary

PruHealth

New business annualised premium income

R million	
2008	533
2007	418
2006	282
2005	35
2004	0

Contribution to group



PruProtect

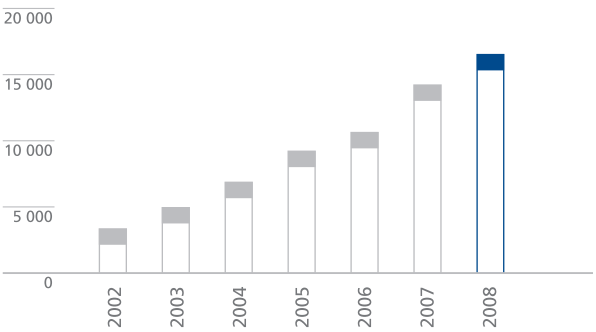
New business annualised premium income

R million	
2008	25

Group financial highlights

The results

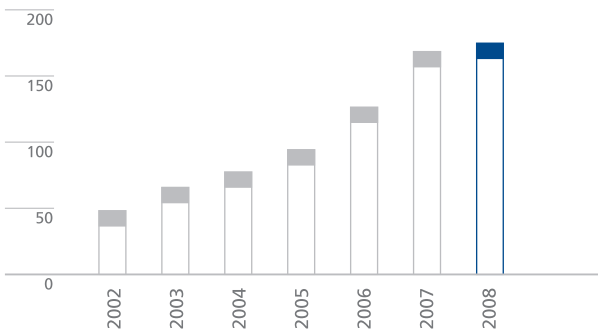
Embedded value
(R million)



R million	
2008	**16 464**
2007	14 166
2006	10 587
2005	9 173
2004	6 832
2003	4 928
2002	3 321

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 shareholder value created by Discovery.

Diluted headline earnings per share before abnormal items
(Cents)

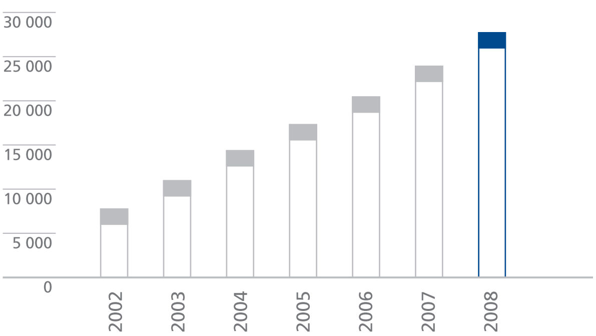


Cents	
2008	**174.7**
2007	168.4
2006	126.4
2005	94.2
2004	77.4
2003	65.7
2002	48.1

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

Value creators

Gross inflows under management
(R million)

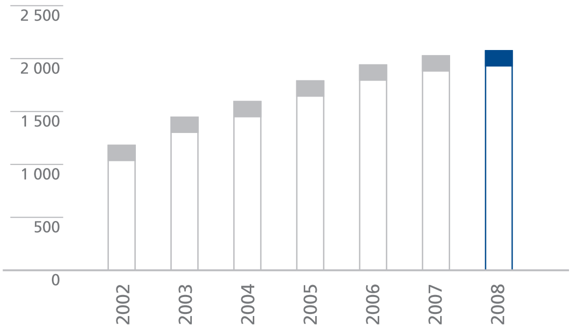


R million	
2008	**27 704**
2007	23 911
2006	20 427
2005	17 295
2004	14 345
2003	10 946
2002	7 739

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

Value creators (continued)

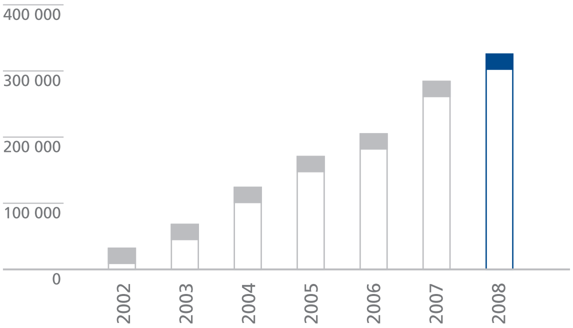
Discovery Health clients
(Thousand clients)



Clients	
2008	**2 074 876**
2007	2 025 650
2006	1 939 339
2005	1 788 566
2004	1 593 975
2003	1 446 371
2002	1 180 121

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.

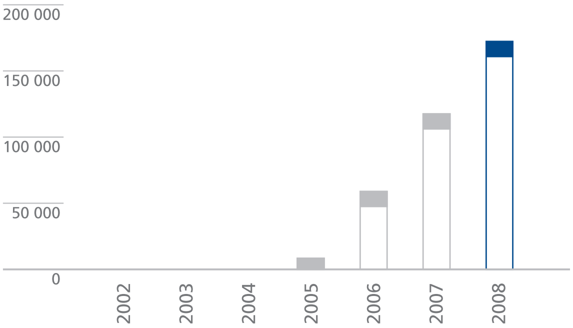
Discovery Life individual policyholders
(Clients)



Clients	
2008	**324 064**
2007	284 162
2006	204 891
2005	170 642
2004	123 977
2003	67 998
2002	31 918

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

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

Our business model

Core purpose

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

Industries we operate in

Consumer-engaged health assurance

Health insurance that makes use of savings accounts and a wellness programme to empower consumers to manage their health, and control their healthcare spending.

Discovery Health

PRU HEALTH

Consumer-engaged life assurance

Risk-only life assurance products that engage policyholders in actively managing their health risks to drive down premiums and create greater efficiency.

Discovery Life

PRU PROTECT
It pays to be healthy

Financial services

DiscoveryCard rewards wellness, facilitates integration between Discovery's product offerings and creates competitive advantage.

Discovery Invest leverages the cost-efficiencies and risk management expertise of our integrated approach to offer unique performance guarantees and cost savings.

Discovery Card

Discovery Invest

Wellness

The Vitality wellness programme is foundational to each of Discovery's businesses.

Discovery Vitality

Strategy

Discovery aims to lead in international health and life assurance markets. We seek to grow organically by offering consumers products that they desire, and in which they can become fully engaged; seek to deliver structural change in our chosen markets to the benefit of the consumer and follow a values-centric approach, with no compromise.

Key drivers of our business model

Wellness

- Across our product offerings, we provide consumers with the tools and incentives to become healthier through Vitality.
- Scientific studies have shown Vitality is linked to better health outcomes and lower healthcare expenses.
- It is a unique differentiator and driver of competitive advantage.
- Our corporate social investment programme extends wellness to the broader community through projects that invest in healthcare infrastructure and promote healthier lifestyles.

Integration

- Discovery's product offerings integrate seamlessly, through the Vitality wellness programme and the DiscoveryCard, to enhance value for clients, creating efficiency and long-term loyalty, contributing to the profitability and sustainability of our business.

Innovation and financial prudence

- Radical innovation that disrupts markets is the hallmark of Discovery's approach.
- Central to Discovery's methodology is the ability to combine and balance this innovation with financial prudence and consumer-centricity to create health and life assurance and financial services products that deliver value and efficiency.
- This is made possible by the coalescing of the unique skills of our talented people who combine actuarial, clinical, technological and marketing expertise.

Consumer-engagement

- Consumer engagement forms the basis of Discovery's ethos.
- In healthcare, it aims to improve consumers' health by incentivising participation in wellness activities scientifically proven to benefit health and provides the information and incentives they need to make appropriate and prudent decisions.
- In life assurance, it provides policyholders with the incentives to manage their underlying risks and influence and improve their pricing on an ongoing basis.
- Consumerism allows Discovery to compete in a commoditised market in a different way, and to provide price points that are lower on a sustainable basis.

Discovery directors

" Discovery's core purpose of making people healthier and enhancing and protecting their lives has manifested in a consumer-engaged approach to health and life assurance, which creates strong competitive advantage, enabling strong organic growth and a wide range of future opportunities."

Adrian Gore Chief Executive Officer, Discovery

1	Herschel Mayers (48)
2	Sonja Sebotsa (36)
3	Adrian Gore (44)
4	Dr Vincent Maphai (56)
5	Dr Brian Brink (56)
6	Peter Cooper (52)
7	Alan Pollard (39)
8	Dr Judy Dlamini (49)

9	Neville Koopowitz (44)
10	Sindi Zilwa (41)
11	John Robertson (60)
12	Barry Swartzberg (43)
13	Monty Hilkowitz (68)
14	Les Owen (59)
15	Tanya Slabbert (41)
16	Steven Epstein (65) (USA) (not pictured here)

Chief executive officer's report

Strong growth in established businesses and two substantial new businesses launched

Adrian Gore
Chief Executive Officer, Discovery

The year under review has been important and successful. Discovery's core purpose of making people healthier and enhancing and protecting their lives has manifested in a consumer-engaged approach to life and health insurance and financial services which has created significant competitive advantage, enabling strong organic growth across its businesses, and provided a wide range of opportunities for the future.

Key highlights over the period include:

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

New business annualised premium income excluding Destiny Health **+18%** to **R4 799 million**

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

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

Final dividend of **23 cents per share**

Discovery's context in 2008

Discovery's consumer-engaged approach has particular relevance in the current economic environment

The period has featured accelerating new business growth across the Discovery group, despite a uniquely challenging and difficult economic environment. We are witnessing some of the most dramatic financial events in generations. A combination of a decade of low interest rates, rising property prices and reckless lending practices by banks around the world has given rise to a credit crisis wherein the international banking system is facing a major liquidity and solvency challenge.

The danger extends beyond the banks themselves – as credit dries up and property prices fall, the effect on the world economy could be severe. The massive drop in the stock markets and their volatility reflect this, and illustrate the dangers. Although South Africa's economic fundamentals remain sound, our economy is subject to volatility and negative sentiment in global markets.

In difficult times, people are more sensitive to value for money. There is a general flight to quality, and to companies that are able to demonstrate sustainability and financial strength. As a result, although we believe that difficult times create opportunities, there will be clear winners and losers.

It is in this emerging environment that I am particularly pleased with Discovery's positioning. Discovery has been founded on a set of core values that govern our interactions with all stakeholders, and that bind us to the highest standards of ethics, quality and value.

In particular, the values of innovation and prudence are so important in our strength and positioning. The top-of-mind perception about innovation is that it is about being cavalier, and the top of mind perception of prudence is that it is about being boring and missing exciting opportunities.

In the case of Discovery, however, it has been the opposite – we have consistently applied an ethos of innovation to ensuring our products are sustainable and generate superior performance for our clients and stakeholders.

From Medical Savings Accounts to the Vitality wellness programme to Discovery Life's risk-only life assurance to integration between our product lines, the consistent theme has been sustainability, better value for money for our clients, and superior financial performance for Discovery. Ironically, our innovations therefore have been about achieving prudence.

Furthermore, we have underpinned all of our businesses with superior risk management, and have applied a particularly conservative approach to managing our balance sheet. The result is an organisation of considerable financial strength, well positioned for growth without any need for capital. These factors position Discovery particularly well to capitalise on the opportunities inherent in the current environment.

Discovery is committed to playing a positive leadership role in South Africa

Beyond the challenges associated with the international market conditions in the period, South Africa has faced a number of problems domestically, including the electricity crisis early in 2008, xenophobic attacks and widespread political uncertainty, which have contributed to a pervasive sense of negativity.

In our view, while it would be irresponsible and unrealistic simply to dismiss these concerns, opportunities do tend to present themselves when conditions appear most bleak.

The growth opportunities associated with the 2010 Soccer World Cup are boundless and Government's recently renewed commitment to continued infrastructure spending is encouraging.

Though unfolding political change has created uncertainty, international commentators agree that they are a testament to the robust democracy that exists within our country.

Along with Government, private sector organisations such as Discovery have an important leadership role to play in highlighting and building on the many positives that exist within our society, and in addressing and overcoming the negatives.

We are absolutely committed to contributing positively to our country through product excellence, positive leadership and relevant engagement with all stakeholders.

It is in this context that Discovery's position is unique, and our performance is reflective of this.

(For information on Discovery's corporate citizenship initiatives, please access our 2008 Sustainablity Review at www.discovery.co.za)

Our performance in 2008

Established businesses

1. Discovery Health

Discovery Health's results across each key performance measure exceeded our expectations

Operating profit grew by 21% to R891 million and membership grew by 3%. The lapse rate, despite difficult economic conditions, remained stable at 4%. Importantly, efficiencies increased dramatically with the staff headcount per 1 000 lives covered decreasing by 9%. The reserves within the Discovery Health Medical Scheme crossed the R5 billion level and the scheme is on target to achieve the statutory solvency level of 25% of gross contributions by 31 December 2008. These results have placed Discovery Health in a uniquely strong position in its chosen market.

Managing healthcare costs remain and industry challenge

Healthcare inflation typically outstrips consumer price inflation because of high demand relative to the scarcity of healthcare resources and ongoing technological advancements in the field. In addition, during the past year, many of the input costs indirectly associated with healthcare – interest rates, fuel prices and exchange rates – have escalated significantly. The pressure on consumers' pockets means that healthcare cover is increasingly difficult for consumers to afford, competing with more immediate and basic financial commitments.

These challenges are manifesting in the rest of the medical schemes market in poor growth and poor financial performance. During 2007, open medical schemes – excluding Discovery Health Medical Scheme – generated operating losses of R574 million and their membership declined by 11 000 families in total. The Discovery Health Medical Scheme by contrast generated an operating surplus of R1 416 million in the 2007 calendar year and grew its membership.

In this complex and challenging operating environment, Discovery Health's strategy has been to leverage its expertise and scale to build assets within the private healthcare system that not only benefit its members, but the industry as a whole.

Discovery Health's unique assets create sustainability for members, despite the difficult operating environment

1. Payment arrangements protect members against co-payments and benefit healthcare professionals

Given the high demand for specialists' skills relative to their limited supply, specialist costs have been a major contributor to healthcare costs. Discovery Health has long acknowledged the widening gap between the costs of delivering specialist services and the medical aid tariff. As the gap has widened, medical scheme members have increasingly become exposed to co-payments and gaps in their cover.

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

Discovery Health's unique scale and footprint has allowed it to create proprietary payment arrangements with specialists and GPs to counteract the problem. Discovery Health's specialist payment arrangement, first introduced in 2007, reimburses specialists directly at a higher rate than the prevailing "medical aid rate" and protects members against co-payments at point of service. This strategy works in concert with the Discovery Health GP Network, which gives members access to GP services at half the cost to their Medical Savings Account (the balance is paid from the medical scheme, making members' savings accounts go further). Members are incentivised to first call on the GP who can refer to a specialist when appropriate.

The approach aligns incentives between the different healthcare professionals, member and health funder – and it is working. In 2008, the payment arrangements with specialists and GPs have performed well, with over 77% of GP consultations and 81% of specialist consultations claimed for by Discovery Health members taking place within a direct payment arrangement.

2. The KeyCare Primary Care Network puts private healthcare within reach of many more South Africans

Discovery Health is committed to removing the financial barriers to private healthcare, so that a greater proportion of South Africans are able to gain access. Since 2003, the KeyCare Plans have made private healthcare accessible to employed but uninsured individuals earning between R3 500 and R6 500. Today, KeyCare covers over 180 000 lives (as at August 2008) and is the fastest growing health plan in this market.

Discovery Health has, as a result, developed unique expertise in the low income market. In recent years, it has worked closely with GPs to understand the needs and cost dynamics associated with this market. This has enabled it to create the KeyCare Primary Care Network, which uses a hybrid reimbursement model that combines capitation fees and a fee-for-service model, along with medication formularies, to provide affordable primary care with no limits.

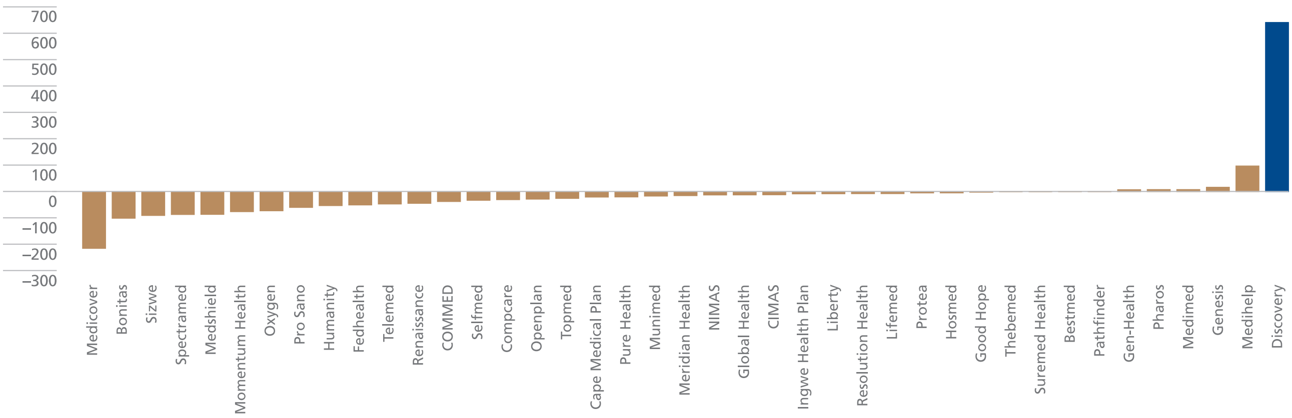
Going into 2009, Discovery Health has further lowered the barriers to entry by introducing tiered contributions based on income bands. Members earning the least are now able to access cover at a considerably lower cost. The entry price is R375 per month, a 40% drop in real terms, which now makes cover accessible to people earning between R1 500 and R3 500 per month.

3. Proprietary risk management tools allow us to manage hospital costs by eliminating unnecessary waste in the system

In 2007, the much-publicised issue of hospital rebates on surgical supplies highlighted the waste inherent in the system and the concomitant impact on hospital costs. Discovery Health's clinical risk management expertise and technological infrastructure helps to eliminate unnecessary waste through careful and ongoing analysis of its extensive data by specialist teams of actuarial, clinical and financial experts to allow it to identify trends and outliers, and actively manage them. The approach is a cooperative one that aligns incentives between patient, hospital and funder without interfering in treatment decisions.

The Discovery Health Medical Scheme's operating results relative to other schemes
(Source: Council for Medical Schemes Annual Report 2007-2008)

Net healthcare result
(R'000)



Coupled with Discovery's scale, the approach has allowed us to create proprietary hospital networks based on the performance of each individual hospital in terms of cost and quality of care provided. The newly-developed Delta Hospital Network, for example, will give members optimal access to quality private healthcare at a discount of as much as 20% on their current contributions in 2009.

4. Sophisticated health economics modeling and funding frameworks make expensive new drug technologies more accessible

The past few years have seen a marked increase in the utilisation of expensive new drug technologies, driven both by the accelerating pace of technological advance in the medical field and increasingly more aggressive treatment protocols. While we welcome these new technologies and want members to enjoy access to them, Discovery Health must use its scale to contain costs.

Discovery Health employs pharmacists, health economists and other actuarial and clinical skills sets to understand the cost and clinical implications of new technologies, with a view to developing sustainable funding models. These teams engage directly with pharmaceutical companies to negotiate reductions in the single exit prices of certain high-cost medicines, based on their analysis of the clinical impact and benefit of these technologies in relation to their costs. The result is lower costs not only for members of the Discovery Health Medical Scheme, but South African consumers in general.

5. Encouraging healthier lifestyles unlocks cost savings for members

The link between the Discovery Health Plans and the standalone wellness programme, Vitality, remains a critical component of Discovery Health's efforts to contain costs for members. Discovery Health has found that Vitality benefits risk management in two distinct areas:

- Lower lapse rates: Highly-engaged Vitality members – those who actively participate in the Vitality programme – are less likely to withdraw from the scheme. This is important because younger, healthier members are typically the ones who can afford to surrender their health insurance. These younger, healthier members are needed to cross-subsidise the expenses of older, sicker members who cannot afford to leave. Sound risk management therefore requires ensuring that healthy, young members derive enough benefit – in this case through wellness rewards and incentives – from belonging to the medical scheme, to ensure their long-term loyalty.
- Fewer claims: Highly-engaged Vitality members experience lower hospital costs, shorter hospital stays and fewer hospital admissions than members not engaged or with a low level of engagement in the programme. The costs associated with chronic medicine are also significantly lower than for members not engaged or with a low level of engagement[(1)].

"Discovery Health's clinical risk management expertise and technological infrastructure helps to eliminate unnecessary waste through careful and ongoing analysis of its extensive data by specialist teams of actuarial, clinical and financial experts to allow it to identify trends and outliers, and actively manage them."

To broaden the impact of Vitality, Discovery Health has, in the period under review, rolled out its corporate wellness programme to all employers with more than 100 employees covered by the Discovery Health Plans. The programme integrates with Discovery HIV*Care* to offer an employer-based HIV and Aids management strategy. In 2009, the offering will be extended to employer groups with more than 35 employees covered by Discovery Health.

Discovery Health is also extending these wellness assets to the broader community. In July 2008, it announced a year-long drive, in partnership with the Sunday Times, to incentivise South Africans to receive voluntary counseling and testing through the Right to Know campaign. It is hoped that the campaign will contribute to greater awareness of HIV and Aids and ultimately, help to contain the impact of the disease on our country and its people.

(For more information on this and other community initiatives in which Discovery is involved, please view Discovery's Sustainability Review 2008 at www.discovery.co.za)

6. Servicing expertise and cutting-edge technology reduce costs and ensure operational efficiencies

A key driver of this year's growth in operating profits was the focus within Discovery Health on service efficiency. Discovery Health uses predictive modeling techniques to anticipate members' servicing needs, and has identified calls to its call centres confirming receipt and payment of claims as a key cost driver. It has introduced immediate electronic claims receipt, processing and payment notifications as a means to preempt these calls. Members now receive daily notifications, rather than two-weekly claims statements.

(1) According to three Vitality Insured Persons Studies, 2008, conducted by researchers from Discovery Vitality, the University of the Witwatersrand, University of Cape Town and Harvard Medical School.

Discovery Health's service and operational processes are now also ISO 9001 compliant, providing members and shareholders with peace of mind around the sustainability and quality of its internal servicing capabilities.

The results of these servicing initiatives coupled with the managed care initiatives highlighted in the sections above have unlocked significant efficiencies, which have been passed on to members through lower administration fees. Administration fees have increased over the last five years by only 2.3% per annum, 4.0% less than CPI over the period.

Discovery Health will continue to play a leadership role in the regulatory environment

Healthcare is always an important and widely debated policy issue, and particularly so in the lead up to elections. Following the Polokwane Conference last year, the ANC has identified universal access to quality healthcare as an issue of priority over the next five years. The healthcare debate is expected to focus on increased funding for the public healthcare system, improvements to quality of care and delivery within the public system, as well as on the development and implementation of some form of National Health Insurance System.

We believe that the prospects for strong, positive engagement between the private health sector and Government have been significantly enhanced with the appointment of the new Minister of Health and her Deputy Minister. The private health sector is, in our view, a national asset and has much to contribute towards the achievement of critical public health goals, and in improving the accessibility and quality of care delivered by the public healthcare system.

Discovery Health is fully committed to playing its part, not only in the important health policy debates, but also in directly working with and assisting the public sector authorities in the improvement of the healthcare system.

2. Discovery Life

Discovery Life performed beyond expectation in all aspects of its business

During the period, Discovery Life grew new business strongly, focused on bolstering its distribution capability, and continued to benefit from positive claims experience.

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

Discovery Life strengthened its position as the leading player in the risk-only assurance market

Discovery Life pioneered South Africa's risk protection market with its launch in 2000. While competitors have since adopted this risk-focused approach to life assurance – which strips out the investment element associated with traditional policies – Discovery Life remains the acknowledged leader in the market.

The 2008 PricewaterhouseCoopers Insurance Survey, released in June 2008, included a peer review conducted among the CEOs of South Africa's leading insurance companies. Discovery Life was rated by its peers as the top provider in terms of risk protection products and innovation. In addition, Discovery Life was recognised in June 2008 as the life assurer of the year (risk products) in the Financial Intermediaries' Association's prestigious annual awards.

Discovery Life's consumer-engaged model continues to deliver better claims experience and persistency

Despite the emerging economic climate, Discovery Life has achieved positive experience variances over the year.

Discovery Life's dynamic underwriting approach uses the information about policyholders' health engagement

Discovery Life continued

(measured through claims against their health plans as well as their Vitality status) over time to price their risk accurately and, through premium savings and value-added benefits, encourages them to improve their health status.

The positive impact of this approach on Discovery Life's mortality and morbidity experience boosts operating profits and, we believe, is also the driver behind the fact that Discovery Life's average policy size is greater than that of competitors. Policyholders tend to increase their cover and add ancillary benefits to their policies rather than pocketing any premium savings achieved through improvements in their health.

The impact on persistency levels is of tremendous value to the business. While lapse rates on smaller policies (below R800 per month) increased during the period, on larger policies – and the majority of Discovery Life policies are above the R800 level – there was an uptick in the take-up of ancillary benefits. This is a key driver of profitability for Discovery Life and a telling measure of the quality and sustainability of its business, particularly in light of the current economic climate.

New product innovations leverage integration to offer consumers the most cost-efficient life assurance cover

Discovery Life introduced important product innovations towards the end of the period. The Discovery Cover Integrator allows existing policyholders to buy additional life assurance cover in tranches of 20% or 40% at a cost saving of up to 50% on the standard cost. In addition, the LifeTime Impact disability and dread disease benefits dynamically flex benefit payouts based on the long-term impact of the disability and dread disease on the policyholder. The impact assessment takes account of the policyholder's financial obligations and future medical costs to calculate a more accurate and efficient benefit payout.

The Dynamic Spend Protector, which works in tandem with the Income Continuation Benefit, uses the DiscoveryCard as a platform to provide policyholders with protection against the rising cost of living should disability or illness prevent them from earning an income. The product deepens the monthly cash back discounts that DiscoveryCard-holders receive when shopping within the DiscoveryCard retail partner store network.

Higher new business rates post the reporting period are early indicators of the new products' appeal and we expect to see this increase in the year ahead.

The performance of Discovery Life's distribution strategy provides significant competitive advantage

Discovery's emerging agency force has performed exceptionally during its first full year, playing a major contributing role in Discovery Life's strong new business growth in the period. Discovery has traditionally relied solely on independent financial advisers as a means of product distribution – at present, close on 7 000 intermediaries actively market Discovery Life products. However, as Discovery's product offerings have evolved and merged into a sophisticated, integrated suite covering the entire spectrum of financial services, the potential to attract and retain the services of the industry's best tied agents became increasingly clear. The number of agents working within the Discovery Financial Consultants network has now grown to 144 agents across South Africa, with each agent producing new business on average of R136 747 per month. Discovery estimates this to be around eight times more than the industry average. Strategically, the accelerating expansion of our tied agency force combined with continued focus on marketing the significant new product innovations introduced in 2008 provide a sound platform for Discovery Life's growth in the year ahead.

"Discovery Life policyholders tend to increase their cover with us and add ancillary benefits to their policies rather than pocketing any premium savings achieved through improvements in their health."

3. PruHealth

During the year under review, PruHealth continued to focus on building a business of quality and scale in order to create a strong platform from which Discovery can duplicate its successful consumer-engaged business model in the UK. New business increased by 28% from R418 million to R533 million, with PruHealth capturing 11% of total new business transacted in the UK private medical insurance market. Importantly, operating losses were cut by 29% from R218 million to R155 million and compared with same period last year, Discovery's share of losses reduced by 37% from £7.2 million to £4.6 million.

Strong new business production to increase the scale of PruHealth

PruHealth has focused strongly on achieving growth and quality to ensure a business of scale and relevance in the UK private medical insurance market – PruHealth's membership grew by 83%. While it is important for PruHealth to achieve an accounting profit, Discovery and Prudential believe that this should not be achieved at the expense of growth potential and quality. We therefore continued to focus on building the business with approximately 61% of PruHealth's expenses going to acquisition costs.

Better loss ratios, lapse rates and expense efficiencies drive quality and sustainability

During the year, PruHealth also worked to improve the factors that drive quality and sustainability in the medical insurance industry: the claims-loss ratio, lapse rates and expense efficiencies. Maintenance costs for each policy on the books have also decreased steadily since 2006, clearly indicating that PruHealth's strategy to achieve operating efficiencies is on the right track.

Vitality remains an important part of PruHealth's strategy to lower lapse rates and improve the claims-loss ratios. It offers members enhanced value and, by encouraging them to adopt healthier lifestyle habits, helps to decrease healthcare costs over the long term. We believe a continued focus on improving these factors will result in the business turning profitable in the near future.

Continued innovation to build on PruHealth's leadership position in the UK market

In the UK market, PruHealth already fulfils the role of product and thought leader. With increased scale brought about by strong membership growth and lower lapse rates, as well as a new approach to health and wellness through Vitality, PruHealth is set to drive industry change.

Vitality remains the innovative differentiator in this market. In particular, Vitality Interactive is a powerful online capability, which allows members to interface more closely with Vitality. It facilitates a more powerful and personal way for them to manage their health and access the rewards offered by Vitality. This functionality is now being rolled out across Discovery's businesses.

In addition, a number of valuable new partners, such as Eurostar and Mark Warner, have been added to the Vitality offering, further enhancing its value proposition and demonstrating the ability to leverage Vitality's intellectual capital in other markets.

4. Discovery Vitality

Discovery Vitality's performance positions it to drive positive behaviour change and deliver competitive advantage to each of Discovery's businesses

Vitality posted a pleasing and important performance during the year under review.

Operating profit increased by 14% from R43 million to R49 million. This represents the combined earnings of Vitality and the DiscoveryCard, which is operated by Vitality. The number of Vitality members increased by 2% from 1.28 million to 1.30 million. We have during the period seen an increase in members' level of engagement in various areas, including an 8% increase in the number of members exercising at Virgin Active and Planet Fitness gyms.

While Vitality's financial results exceeded our expectations, its value lies in the foundational role it plays across Discovery's other businesses. Vitality integrates the various Discovery offerings to drive loyalty, lower costs by improving morbidity and mortality experience, and add value for clients. It is the vehicle for delivering on our core purpose of making people healthier and enhancing and protecting their lives – it allows Discovery to fulfil its ethos of wellness and consumer-engagement. Further, because it cannot be copied by competitors, it is an important driver of competitive advantage for all of Discovery's businesses.

Discovery Vitality continued

Enticing rewards provide the right incentives for behaviour change

The rationale behind Vitality has always been to use incentives to drive behaviour change. During the period, Discovery Vitality introduced the international travel benefit in partnership with British Airways, providing discounts as high as 60% – depending on members' engagement in the programme and their use of the DiscoveryCard – on flights to 16 international destinations. We also introduced Vitality Diamond Status, which rewards continuing engagement in the programme through deepened discounts for members who maintain the highest levels of participation in the programme for three years or more.

Vitality has invested significantly in improving children's health in South Africa

As part of Vitality's wellness initiative for children, we recently introduced the Vitality Schools Programme, which aims to educate children, teachers and, indirectly, parents on exercise, preventive screening and healthy nutrition. Over 1 000 schools are already enrolled in the programme.

The initiative has also seen Vitality partnering closely with GPs and paediatricians in driving awareness of children's health issues. Vitality members earn Vitality points for completing children's health assessments online and going for regular health screenings with the dentist, GP and paediatrician. We believe this programme represents a significant investment not only in the future health of our young Vitality members, but of South African children on the whole.

Personal Pathways provide customised wellness solutions to clients

In 2008, Vitality introduced personal points, which allows Vitality members to set individual goals to improve their health and earn extra Vitality points for achieving those "priority" goals. Using online, interactive tools, we are further improving Vitality's ability to offer customised wellness solutions to clients, providing a powerful platform going into 2009 for future differentiation and added-value for all of Discovery's businesses.

We have already in the UK rolled out an interactive Vitality offering (discussed in the PruHealth section), which allows Vitality members to map a personal pathway to better health. Members are able to complete a detailed Personal Health Review online, receive detailed feedback on their current health status and gain access to the information and tools they need to address these specific issues. The new Vitality interactive website will be rolled out in South African and the USA in 2009.

> "Engaged Vitality members – those actively leading a healthy lifestyle – had lower hospital admission rates, incurred lower costs when in hospital and spent less on chronic medicine for certain diseases."

Three studies have associated participation in Vitality with lower healthcare costs

Vitality in September 2008 released the findings of a series of three academic studies undertaken during the period. We collaborated with researchers from University of Cape Town's Exercise Science and Sports Medicine Research Unit (ESSM), the University of the Witwatersrand School of Statistics and Actuarial Science, as well as Harvard Medical School.

The studies set out to prove Vitality's effectiveness in addressing rising healthcare costs, using data from almost one million Discovery Health members. They found that engaged Vitality members – those actively leading a healthy lifestyle – had lower hospital admission rates, incurred lower costs when in hospital and spent less on chronic medicine for certain diseases.

These findings are an important addition to the growing body of evidence linking wellness programmes to better health outcomes and lower costs, with important implications for Vitality's impact on individual clients' health and its cost benefit to our different businesses. They also improve Vitality's attractiveness to large corporate employer groups grappling with the rising cost of healthcare for employees.

Removing cost as a barrier to healthy eating

At the time of writing, Vitality had just announced a partnership with leading food retailer, Pick n Pay, to make healthy eating more affordable for our members. With more evidence emerging that in addition to regular exercise, a healthy diet is a highly effective way to prevent and manage chronic lifestyle diseases, we have developed a mechanism to provide discounts on healthy food in 2009.

Vitality has appointed a panel of leading nutrition and wellness experts, to select and clearly flag healthy foods for Vitality members. Foods have been selected based on World Health Organization nutrition guidelines. Applying the Vitality philosophy, the benefit provides access to healthy food, educates consumers on better eating habits and provides incentives to drive use of the benefit. The benefit will be available from February 2009.

5. Destiny Health

We are busy winding down Destiny Health and will maintain a small US presence through the Vitality standalone offering

During the period under review, we announced that Destiny Health would exit the US retail insurance market, but would continue to offer Vitality to employer groups and health plans on a standalone basis. The process, while complex and extensive, is going according to plan.

Importantly, Discovery's approach has been based on maintaining and enhancing its reputation with state regulators, Discovery's insurance partners, plan members, employers and other stakeholders.

Destiny Health has concluded all the necessary contracts and secured the necessary regulatory approvals. We have already started transferring Destiny Health Plan members to the various insurance carriers, and expect the majority of the base to move on 1 January 2009. However, it will take approximately 24 months to complete the transfer process.

New businesses

1. Discovery Invest

Discovery Invest made a promising start with good new business volumes, despite volatile markets

Discovery Invest went to market in the last quarter of 2007, just at the time that international investment markets became difficult and volatile. Despite these challenging conditions, Discovery Invest's performance has exceeded our expectations.

The group has invested R157 million in developing, launching and transacting Discovery Invest's initial new business with encouraging results. New business production amounted to R1.2 billion, made up of R181 million in recurring premium business and R984 million in single premiums. This yielded R206.1 million in annual premium equivalent for the period under review.

Total assets under management exceeded R1.4 billion at 30 June 2008.

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

The dual strategies of integration and protection provide significant cost savings and added value for investors, creating opportunity for strong organic growth

There are the two important thrusts of innovation: the use of integration with Vitality and the LIFE PLAN to significantly reduce the asset management and operational fees that the investor pays and, secondly, funds such as RightChoice and the Escalator, which provide the upside of the chosen investment markets, but

Discovery Invest continued

provide unique and dynamic downside protection. Both of these thrusts are appropriate in volatile investment markets, and the concept of reduced fees has been particularly well received.

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

2. PruProtect

PruProtect, Discovery UK life assurance joint venture with the Prudential plc performed below expectation for the period.

UK market conditions present significant opportunity for Discovery's consumer-engaged life assurance model

The UK insurance industry (including long-term and short-term products) is the largest in Europe and the second largest in the world, accounting for 11% of total world-wide premium income. During 2007, the UK insurance industry paid out £211 million per day in pension and life insurance benefits, showing the scale of the industry[2] . Despite the size of this industry, however, consumers have not had access to the consumer-engaged pure-risk assurance products available to their counterparts in South Africa.

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

Slow progress in rolling out a high-advice distribution channel hampered traction, but remedial steps have since been taken

Given the differentiated nature of the product range, a fundamental element of the strategy has been the need to build a high advice distribution channel which interfaces face-to-face with independent financial advisers (IFAs). However, the execution has been behind schedule.

"PruProtect's strategy is predicated on the deployment of the Discovery Life product methodology, wherein benefits are differentiated and modernised. Vitality is used to enable dynamic pricing so that the price points achieved are competitive."

The strategic intention was to deploy a franchise distribution channel across the UK that mirrors the successful approach taken in the South African market. This requires a careful establishment of distribution franchises run by hand-picked franchise directors who, in turn, recruit exceptional account managers to call on the IFAs. The structures and algorithms within this approach have been well developed within Discovery, with specifications and account-manager density predetermined based on the distribution of intermediaries within a geographic area, as well as other factors.

During the period the progress made was slow and the migration of skills from Discovery ineffective. Remedial actions have since been taken, including a significant increase and intensity in sales leadership resources and an injection of key Discovery distribution skills. PruProtect has also recruited a number of leading resources from within the UK life assurance market.

Discovery expects 100 account managers – up from only 10 in March 2008 – to be operational by December 2008. This channel is also being supported by active telephonic account management. As these channels gain traction, it is expected the business will move in line with expectation.

Our prospects for 2009

Discovery is well positioned to continue growing both its established and new businesses in the year ahead.

In closing

As always, I would like to express my thanks to the people of Discovery for their innovative thinking, hard work and unrelenting commitment to providing our clients with unique, value-adding products.

2 ***UK Insurance – Key Facts****, Association of British Insurers, September 2008.*

Meet the CEOs

Neville Koopowitz (44), BCom, CFP

Chief executive officer: Discovery Health

- Discovery Health's performance across every key measure exceeded expectations, and placed it in a uniquely strong position in its chosen market.
- Operating profits increased by 21%, lapse rates remained stable and efficiencies increased dramatically during the period.

Herschel Mayers (48), BSc (Hons), FIA, FASSA

Chief executive officer: Discovery Life and Discovery Invest

- Discovery Life's performance was exceptional despite economic conditions. Operating profits grew by 38%, new business grew by 45% and the value of in-force business grew by 22%.
- Discovery Invest made a promising start, producing new business to the value of R1.2 billion in the first six months, in spite of volatile investment markets.

Alan Pollard (39), BSc (Hons), FIA, FASSA

Chief executive officer: Discovery Vitality

- Vitality performed well financially, increasing operating profits by 14%.
- However, Vitality's real significance is as an underpin to Discovery's other businesses. In this regard, considerable developments and innovations took place within Vitality during the year.

Shaun Matisonn (35), BSc, FFA, FASSA, ASA, MAAA

Chief executive officer: PruProtection

- PruHealth placed an intense focus on new business production, innovation and the drivers of quality and profitability. New business increased by 28%.
- PruProtect's performance in its first six months was below expectation, due to a slower than anticipated roll out of its distribution footprint. Remedial steps have been taken and we anticipate an accelerating pace of growth in the period ahead.

Corporate governance
for the year ended 30 June 2008

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Discovery directors

DISCOVERY HOLDINGS DIRECTORATE

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

Non-executive
Dr BA Brink
JP Burger ***
P Cooper*****
LL Dippenaar (Chairperson)***
Dr NJ Dlamini
SB Epstein (USA)
PK Harris***
MI Hilkowitz (Chairperson)
Dr TV Maphai
AL Owen (UK) ****
S Sebotsa
T Slabbert*****
SV Zilwa

** Appointed 30 August 2007*
*** Resigned 30 August 2007*
**** Resigned 31 December 2007*
***** Appointed 6 December 2007*
****** Appointed 1 January 2008*

Dr Brian Brink (56)
BSc (Med), MBBCh, DA (SA)
Non-executive director
Dr Brian Brink has been employed by Anglo American South Africa for more than 20 years and in his current capacity as Senior Vice President: Health, he advises Anglo Group companies on a broad range of health-related issues. Dr Brink also spends much of his time advising businesses on how to respond effectively to HIV and AIDS; he is currently the alternate board member representing the private sector on the board of the Global Fund to fight AIDS, TB and malaria.

Peter Cooper (52)
BCom (Hons), HDip Tax, CA(SA)
Non-executive director
Peter is currently the Chief Operating Officer of RMB Holdings and is a member of FirstRand's executive committee. As RMBH's representative, he also serves on the boards of its investments, including OUTsurance, RMB Structured Insurance and GlenRand MIB. 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.

Dr Judy Dlamini (49)
MBChB, Diploma in Occupational Health, MBA
Non-executive director
Judy founded Mbekani Health & Wellbeing (Pty) Ltd, and is also the executive chairperson. Judy was previously employed as a senior manager at HSBC Investment Services (Africa) (Pty) Ltd in corporate finance, and prior to this, practiced as a family practitioner for many years. She also sits on the boards of Northam Platinum Ltd, Aspen Pharmacare Ltd and Gijima Ast Group Ltd.

Steven Epstein (65)
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 to strategic partnering to complex compliance issues. He sits on the board of Destiny and a number of healthcare companies and 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.

Adrian Gore (44)
BSc (Hons), FFA, ASA, MAAA, FASSA
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, PruHealth Holdings (UK) and Destiny Health (USA), as well as the Ethics Institute of South Africa.

Monty Hilkowitz (68)
FIA
Non-executive chairman
Monty worked for Southern Life Association and Swiss Re prior to joining Liberty Life in 1971. Monty was appointed managing director in 1978. He was appointed as chief executive officer of Westpac Life in Australia in 1986. He has been self-employed since 1989 and was involved in investment management, financial services and insurance interests in several countries. He is currently a director of The Dublin Network and Acuvest, specialist financial services companies in Ireland. He also serves as chairman of Pioneer International.

Neville Koopowitz (44)
BCom, CFP
Neville joined Discovery as marketing director in 1996 and has played a key role in defining and building the Discovery identity. A particular area of focus of his has been the development of Vitality and DiscoveryCard. He also played an important role in the development of Discovery's sales and distribution environments. He is currently the chief executive officer of Discovery Health. He serves on the board of the Sports Science Institute of South Africa and the Board of Trustees of the Laureus Sport for Good Foundation's South African chapter.

Dr Vincent Maphai (56)
BA, BA (Hons), M Phil, D Phil, Advanced Management Program (Harvard)
Non-executive director
Dr Maphai is the chairperson of BHP Billiton SA, and he was formerly the corporate affairs director of SAB and non-executive chair of Castle Brewing Namibia. 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 HR 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 chair, and he has chaired the SABC, the Presidential Review Commission into the restructuring of the public sector, and the South African Responsible Gambling Trust. Dr Maphai is also the chairperson of the Discovery Foundation.

Herschel Mayers (48)
BSc (Hons), FIA, FASSA
Herschel joined Discovery in 2000 to set up and launch its life insurance arm, Discovery Life. Prior to that he spent twenty years in senior positions at Liberty Life heading up administration, underwriting, systems, technology, product development and finance for group and individual life business. He was also a director of Millenium, Guardbank, Oracle and Liberty Healthcare. Herschel was appointed CEO of Discovery Life in 2006. He also serves on the board of Discovery Holdings, Vitality, PruHealth Holdings (UK) and the Life Offices Association of S.A.

Les Owen (59)
BSc (Hons), FIA, FIAA, FPMI
Non-executive director
Les is a qualified actuary with over 30 years experience in the UK and Australian insurance markets. He was the Group Chief Executive of AXA Asia Pacific Holdings Limited, from 2000 to 2006; and was the non-executive director of AXA UK until recently. Les has significant experience in the market environment for listed companies having played a leading role in the IPO of Sun Life and Provincial Holdings, and subsequently as the Group CEO of AXA Asia Pacific Holdings, one of the top 30 listed companies in Australia. Les brings to the board extensive experience and expertise in international insurance markets.

Alan Pollard (39)
BSc (Hons), FIA, FSSA
Alan was employed by Liberty Life as Assistant Actuary, Product Development between 1990 and 1994. In 1994 he joined Discovery Health and headed up Research and Development, being responsible for the design and development of the Discovery Health products. He is currently the CEO of Discovery Vitality and is a member of the Executive Committee of the Discovery Group.

John Robertson (60)
BCom, CTA, CA (SA), HDipTax
John joined Discovery Health in April 1993 and was responsible for information technology strategy, systems development, information technology networks and finance. He is currently responsible for all aspects of information technology, e-commerce and all internal corporate operations at Discovery. He is also responsible for the strategic development of technology and information systems for Destiny Health Inc. and for the South African operations of the PruHealth joint venture.

Sonja Sebotsa (36)
LLB (Hons), MA
Non-executive director
Sonja has been an executive director at WDB Investment Holdings since 2002 playing an important role in the design and execution of transactions and the management of ongoing investment relationships. She was previously a vice president in the investment banking division of Deutsche Bank, where she gained more than five years' experience in advisory work on Mergers & Acquisitions and Corporate Finance. She has specific experience in advising government on the sale of assets and potential investors on purchasing or disposing of equity stakes in companies.

Tania Slabbert (41)
BA, MBA
Non-executive director
Tania joined WDB Investment Holdings in 1999 and has been the CEO of WDB Investment Holdings for the past six 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.

Barry Swartzberg (43)
BSc, FFA, ASA, FASSA, CFP
Barry, a qualified actuary, joined Discovery Health at its inception in 1992. As one of the company's pioneers, he was instrumental in setting up the company's marketing division, as well as driving the evolution of Discovery Health's risk management and operational areas. He is currently the group executive director of Discovery and serves on the boards of Discovery Holdings, PruHealth Holdings (UK) and Destiny Health (USA).

Sindi Zilwa (41)
BCompt (Hons), CTA, CA (SA), Advanced Taxation Certificate, Certified Financial Planner, Advanced Diploma in Financial Planning
Non-executive director
Sindi is the chief executive officer of Nkonki, a chartered accountancy firm. She was the second black women to qualify as a CA in 1998. She was awarded the Business Women of the Year title by the Executive Women's Club. She is a member of SAICA's Education Committee, and serves on the boards of Woolworths, Primedia and Strate Limited.

Corporate governance committees and secretary

ACTUARIAL COMMITTEE

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

RD Williams (Statutory Actuary)
BBus Sc, FIA

HP Mayers

S Matisonn
BSc, FFA, FASSA, ASA, MAAA

B Swartzberg

A Pollard

AUDIT AND RISK COMMITTEE

P Cooper (chairperson)

SE Sebotsa

SV Zilwa

REMUNERATION COMMITTEE

NJ Dlamini (chairperson)

T Slabbert

M Olivier (independent HR expert)

TRANSFORMATION COMMITTEE

NJ Dlamini (chairperson)

T Slabbert

SV Zilwa

A Gore

B Swartzberg

HP Mayers

JM Robertson

NS Koopowitz

A Pollard

EXECUTIVE COMMITTEE

A Gore

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

R Farber
BCom (Hons), CA (SA), ACMA

HD Kallner
BEconSc, FFA, FASSA

NS Koopowitz

K Kropman
MBBCh (Wits), MBA (UCT)

S Matisonn

HP Mayers

K Mayet
BA (Hons), LLB, LLM

A Pollard

K Rabson
BSc Actuarial, FIA, FASSA

JM Robertson

B Swartzberg

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

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

COMPANY SECRETARY

MJ Botha
BCompt

Remuneration report

INTRODUCTION

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

Remuneration philosophy and structure

The remuneration process is designed to:

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

Responsibility for developing and governing remuneration

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

The primary objective of the Remuneration Committee is to provide input in and approve the reward strategy. It is responsible for:

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

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

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

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

Remuneration Committee membership

Mr LL Dippenaar was chairman of the Remuneration Committee during 2007. He resigned in December 2007, following the unbundling of FirstRand's shareholding in Discovery. Dr NJ Dlamini, an independent non-executive director assumed the role of chairman on 1 January 2008.

Other Remuneration Committee members during the year were Ms T Slabbert and Mr M Oliver (an independent remuneration expert). Mr P Cooper joined the committee on 1 January 2008.

Meeting attendance can be found in the table on page 32.

All Remuneration Committee members have the relevant skills and experience to perform their duties.

Remuneration for executive directors

The executive directors on Discovery's board are:

- A Gore
- NS Koopowitz
- HP Mayers
- A Pollard (appointed 30 August 2007)
- JM Robertson
- B Swartzberg
- SD Whyte (resigned 30 August 2007)

The remuneration of executive directors for the financial year can be found on page 142.

Remuneration packages for executive directors comprise the following components:

Guaranteed component

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

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

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

Short-term incentives

Short-term incentives encourages executive directors to achieve stipulated semi-annual and 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; and
- a "profit pool" element which allows senior management to share in profit if the Group's performance is above certain profit hurdles.

Long-term incentives

Long-term incentives aim to encourage senior management and executives to execute the long-term strategy of the Group successfully to achieve its long-term objectives. The share-based incentive scheme is described below.

Remuneration for senior management and employees

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

Guaranteed component

All permanent employees who are not in a sales function, irrespective of level, receive a guaranteed element of remuneration. This is based on cost to company 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.

The rate at which the guaranteed component increases, has decreased over the last few years, while the proportion of performance-related pay has increased. This approach works on the premise that superior performance by an individual will result in the employee earning in the top quartile for his or her position. Employees in a sales function receive a variable monthly remuneration linked directly to their productivity. The level of this remuneration is also benchmarked to the financial services market.

Short-term incentives

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

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

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

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

Long-term incentives

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

Share-based incentive scheme

Discovery operates a share-based incentive scheme that gives employees a bonus that is calculated according to Discovery's share price performance. Discovery pays these incentives in cash. The incentive is intended to encourage the retention and performance of the participants.

Discovery implemented this bonus scheme following the introduction of income tax legislation that requires employees to pay income tax on all gains from share options that they receive from their employment. Payments made in terms of this scheme are taxable in the hands of the employee and deductible for the company making the payment. Payments are made in equal proportions on the second, third, fourth and fifth anniversaries of allocation.

Discovery gives the employee a choice of how the bonus payments will be made. Employees can choose one of the following options:

- the bonus can be the same as the economic value of a Discovery share where the employee will receive a bonus equal to the Discovery share price;
- the bonus can be the same as the economic value of an option over a Discovery share with a strike price equal to the share price at the date of issue. The employee will receive a bonus equal to the difference between the Discovery share price at the time of payment and the share price at the time of issue; and
- a combination of these two approaches.

To equate the economic value of a Discovery share and an option over a Discovery share, the "number of shares" used in the calculation of an "option" bonus is increased by a factor of 3.3 times.

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

Further details relating to the share-based incentive scheme can be found in note 32.1 on page 127.

Review of long-term incentives

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

Remuneration for non-executive directors

The remuneration of non-executive directors for the financial year can be found on page 142.

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

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

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

Corporate governance

INTRODUCTION

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

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

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

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

THE BOARD OF DIRECTORS AND ITS COMMITTEES

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

The boards of Discovery Holdings Limited, Discovery Life Limited, Discovery Health (Pty) Ltd and Vitality Healthstyle (Pty) Ltd are constituted with the same directors and function as an integrated unit in practice as far as possible. The board meetings of these companies are held concurrently, resulting in improved efficiency and flow of information. Mr LL Dippenaar resigned as chairman on 31 December 2007. Mr MI Hilkowitz was appointed as chairman in his place. Mr MI Hilkowitz is non-executive and independent in accordance with King II. The roles of the chairman and the chief executive officer are separate with segregated duties.

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

The board's charter sets out the following responsibilities:

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

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

DUTIES OF THE DIRECTORS

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

BOARD PERFORMANCE ASSESSMENT

A collective board-effectiveness evaluation is done annually. As a result of the unbundling from FirstRand and the resultant change in the composition of the board, a decision was taken to postpone the evaluation process to the second half of the calendar year. The evaluation of the chairman's performance has been postponed to the following year as he was only appointed as chairman from January 2008. The documentation relating to the board performance assessments would be available for auditing purposes.

APPOINTMENT OF DIRECTORS

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

BOARD PROCEEDINGS

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

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

	Aug 2007	Oct 2007	Oct 2007	Dec 2007	Feb 2008	Apr 2008	June 2008
LL Dippenaar (previous Chairman) (resigned 31 December 2007)	√	√	√	√	–	–	–
MI Hilkowitz (new Chairman)	√	√	√	√	√	√	√
P Cooper (appointed 1 January 2008)	–	–	–	–	√	√	√
A Gore (Chief Executive Officer)	√	√	√	√	√	√	√
BA Brink	√	√	√	√	X	√	√
JP Burger (resigned 31 December 2007)	√	X	X	√	–	–	–
NJ Dlamini	√	√	√	√	√	√	√
SB Epstein	√	√	√	√	√	√	√
PK Harris (resigned 31 December 2007)	√	X	X	√	–	–	–
NS Koopowitz	√	√	√	√	√	√	√
TV Maphai	X	X	√	√	√	√	√
HP Mayers	√	√	√	√	√	√	√
AL Owen (appointed 6 December 2007)	–	–	–	√	√	√	√
A Pollard (appointed 30 August 2007)	–	√	√	√	√	√	X
JM Robertson	√	√	√	X	√	√	X
S Sebotsa	√	√	√	√	√	√	X
T Slabbert (appointed 1 January 2008)	–	–	–	√	√	√	X
B Swartzberg	√	X	√	√	√	√	X
SD Whyte (resigned 30 August 2007)	√	–	–	–	–	–	–
SV Zilwa	√	√	√	√	√	X	X

Richard Farber, the CFO of the Group, attends the board meetings by invitation.

BOARD COMMITTEES

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

Holdings executive committee

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

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

Audit and risk committee

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

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

The responsibilities of the audit and risk committee are:

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

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

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

Mr JP Burger resigned as board member and chairman of the audit committee on 31 December 2008. Mr AH Arnott resigned from the audit committee on 31 December 2008. Mr P Cooper was appointed as board member and audit committee chairman on 1 January 2008.

The board noted the recent changes to the Companies Act including the changes related to the composition of the audit committee. According to the new legislation, Mr P Cooper, nominated by RMB Holdings Ltd, and Ms SV Zilwa, shareholder, do not qualify to be members of the audit committee. To ensure continuity and to preserve expertise, however, Mr P Cooper and Ms SV Zilwa will continue to attend future audit committee meetings by invitation but will not have voting rights. Effective 1 July 2008, Mr AL Owen was appointed as chairman of the audit committee. Ms SE Sebotsa remains a member of the audit committee. The board considers these directors to be independent as required by the Companies Act.

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

	Aug 2007	Nov 2007	Feb 2008	May 2008
JP Burger (resigned 31 December 2007)	√	√	–	–
AH Arnott (resigned 31 December 2007)	√	√	–	–
P Cooper (appointed 1 January 2008)	–	–	√	√
SE Sebotsa	X	√	X	√
SV Zilwa	√	X	√	X

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

The divisional risk committees are responsible for:

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

Actuarial committee

The responsibilities of the actuarial committee are:

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

The actuarial committee met six times during the year. The chief financial officer, the external auditors, the external and the internal actuaries for Discovery Health, Discovery Life, Destiny Health and PruHealth attend if required. The chairman of the audit and risk committee attends the meeting by invitation. During the past financial year the attendance of actuarial committee meetings was as follows:

	Aug 2007	Oct 2007	Nov 2007	Jan 2008	Feb 2008	May 2008
AB Rayner (Chairman)	√	√	√	√	√	√
S Matisonn	X	X	√	√	√	X
HP Mayers	√	√	√	√	√	√
B Swartzberg	√	√	√	√	√	√
T Nzimande (resigned 31 January 2008)	√	√	√	√	–	–
A Pollard (appointed November 2007)	–	–	√	√	√	X
RD Williams	√	√	√	√	√	√

Mr AL Owen was appointed to the Actuarial Committee with effect from 1 July 2008.

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 chairman 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, is appointed according to the Long-term Insurance Act. He is not a board member.

Remuneration committee

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

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

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

	Sep 2007	Dec 2007	Feb 2008	June 2008
LL Dippenaar (resigned 31 December 2007)	√	√	–	–
NJ Dlamini (appointed Chairman 1 January 2008)	√	√	√	√
T Slabbert	X	√	√	X
M Olivier	√	X	√	√
P Cooper (appointed 1 January 2008)	–	–	X	√

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

Ms T Slabbert represents WDB, one of Discovery's BEE partners. Ms Slabbert was appointed to the board on 1 January 2008.

The remuneration committee is assisted by an Internal Remuneration Committee, which considers the details of remuneration of employees other than directors. This committee is chaired by Mr B Swartzberg. The full details of the duties and responsibilities of this committee appear in the Remuneration Report.

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

Executive directors are not involved in setting their own remuneration.

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

Transformation committee

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

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

	Sep 2007	Nov 2007	Feb 2008
NJ Dlamini (Chairman)	√	√	√
SV Zilwa	√	X	√
T Slabbert	√	√	√
A Gore	√	√	√
J Robertson	X	X	√
HP Mayers	X	√	X
NS Koopowitz	X	√	√
B Swartzberg	√	√	√
A Pollard	√	√	√
K Kropman	√	√	√
R Farber	√	√	√

Ms Slabbert represents WDB, one of Discovery's BEE partners. Ms Slabbert was appointed as a member of the board on 1 January 2008.

COMPANY SECRETARY

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

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

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

CODE OF CONDUCT

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

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

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

The code of conduct appears on the company's intranet site.

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

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

COMMUNICATION WITH STAKEHOLDERS

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

GOING CONCERN

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

AUDITOR INDEPENDENCE

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

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

Risk management policy

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

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

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

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

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

The enterprise risk management framework and programme aims to:

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

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

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

The board reviews this policy annually.

GOVERNANCE STRUCTURES

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

Board

Discovery Group audit and risk committee

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

Discovery Group actuarial committee

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

Divisional risk committees

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

Shareholders assets investment committee

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

Independent risk management functions within Discovery

Asset and Liability Management	Operational Risk Management	Compliance	Internal Audit	Legal	Finance

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

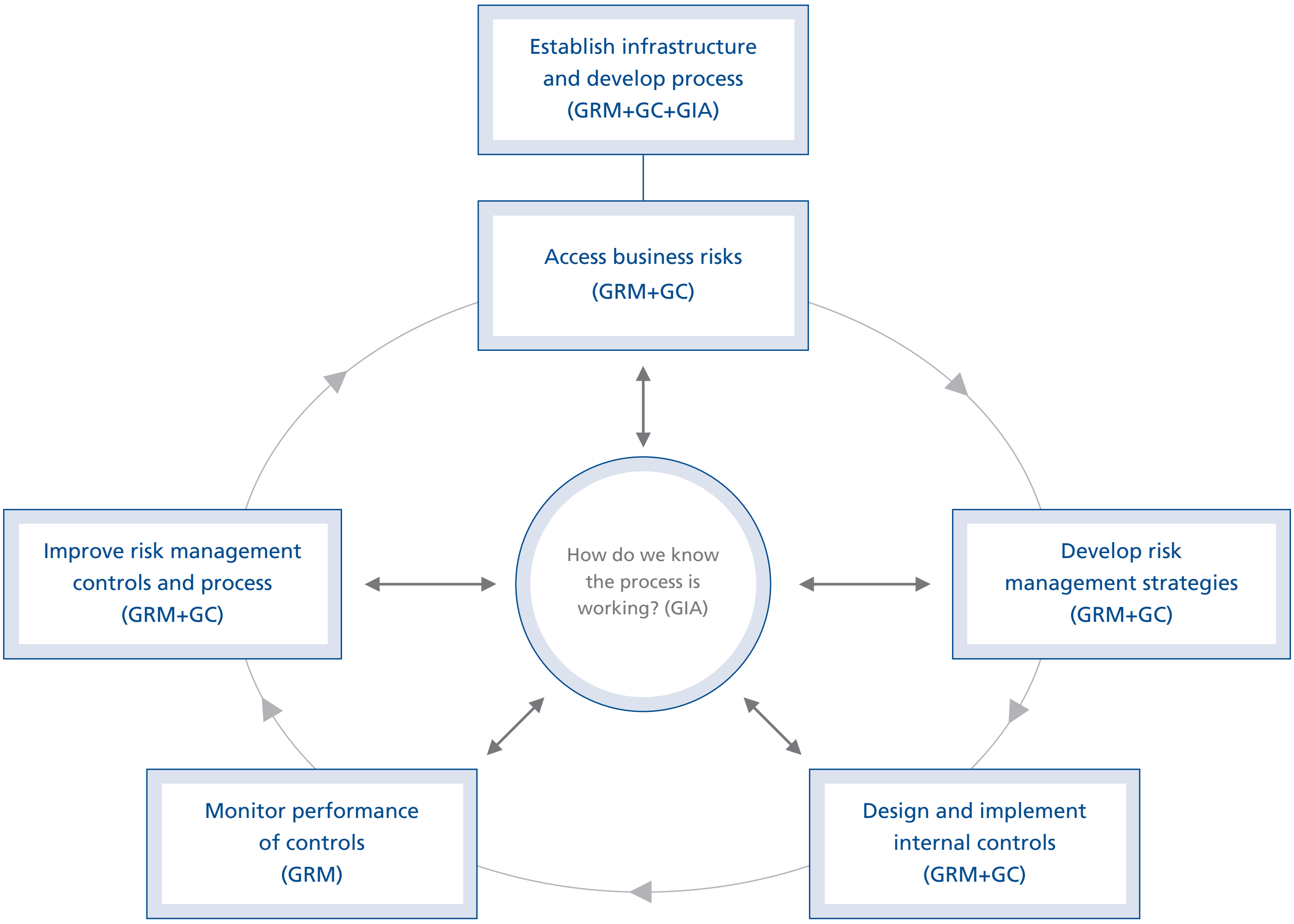
- Group Risk Management ("GRM")
- Group Compliance ("GC")
- Group Internal Audit ("GIA")

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

Risk management policy (continued)

The diagram below illustrates the Risk Management Methodology and the integration between GRM, GC and GIA:

Risk Management Methodology



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

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

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

RISK GOVERNANCE STRUCTURES, ROLES AND RESPONSIBILITIES

Board of directors

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

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

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

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

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

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

The risk committee

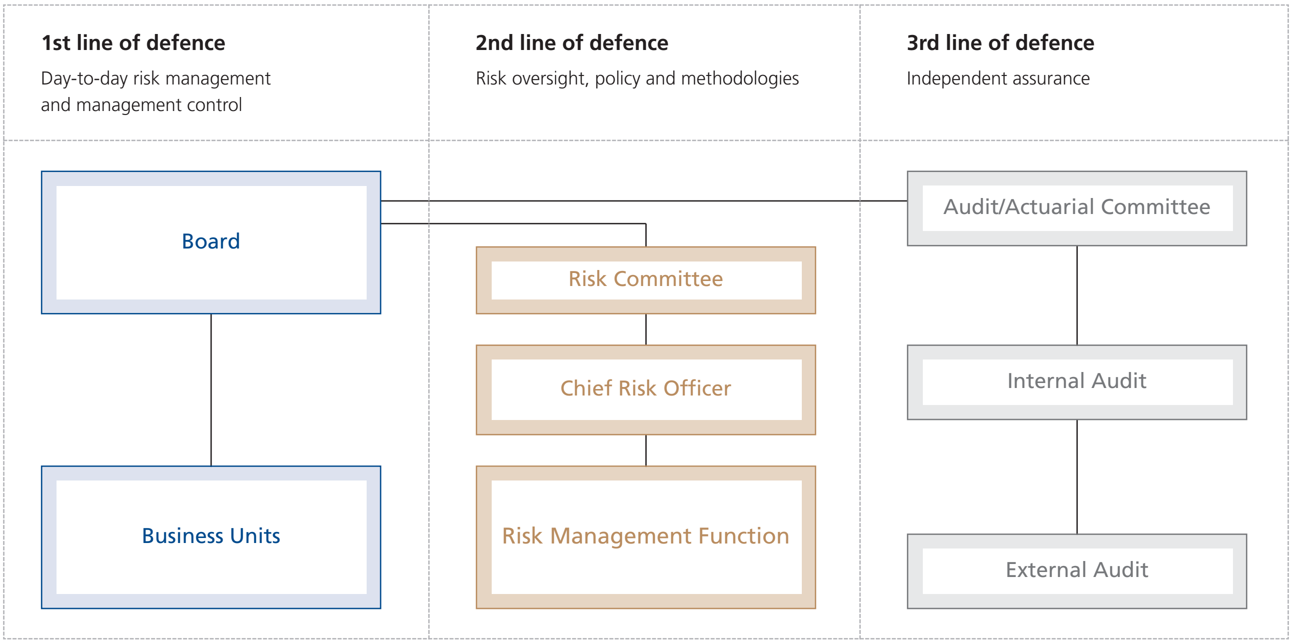
As part of the process of continuous improvement and the embedding of risk management within Discovery the following primary functions are undertaken by the committee:

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

Risk management policy (continued)

The "three lines of defence" model

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



The three lines of defence model operates as follows:

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

RISK TAXONOMY

The core components of Discovery's risk profile are:

- strategic risk; and
- operational risk.

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

STRATEGIC RISK

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

Strategic risk is managed in terms of Discovery's Enterprise Risk Management Framework. Discovery recognises that risk management practices are an integral part of strategic planning.

Strategic goals, objectives, corporate culture, and behaviour are effectively communicated and consistently applied throughout the Group. Strategic direction and organisational efficiency are enhanced by the depth and technical expertise of management.

Strategic initiatives are supported by sound due diligence and strong risk management systems.

OPERATIONAL RISK

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

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

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

OPERATIONAL RISK GOVERNANCE

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

BUSINESS CONTINUITY MANAGEMENT

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

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

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

LEGAL RISK

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

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

There were no significant legal risk breakdowns during the year.

INFORMATION SECURITY

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

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

The Information Security Policy is used as:

- the definition of the objectives for managing Information Security; and
- the outline of the processes that need to be addressed across Discovery in terms of Information Security.

COMPLIANCE RISK

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

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

FRAUD AND SECURITY RISK

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

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

Annual financial statements

for the year ended 30 June 2008

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Nine-year review
for the year ended 30 June

	Pre-IFRS									
	Group 2000	Group 2001	Group 2002	Group 2003	Group 2004	Group 2005	Group 2006	Group 2007	**Group 2008**	Compound growth %
New business API (R million)	1 322	2 177	2 339	3 148	3 213	4 341	4 426	4 834	**5 144**	19%
Gross inflows under management										
Gross inflows under management	3 559	5 494	7 739	10 946	14 345	17 295	20 427	23 911	**27 704**	29%
Less: Collected on behalf of third parties	1 310	2 117	3 877	7 190	10 647	13 266	14 988	17 338	**20 088**	41%
Less: Money Market contributions	221	559	357	–	–	–	–	–	**–**	
Gross income of Group	2 028	2 818	3 505	3 756	3 698	4 029	5 439	6 573	**7 616**	18%
Income statement extracts										
Profit from operations	122	216	318	460	829	923	1 263	1 510	**1 735**	39%
– Local operations	155	277	426	629	961	1 151	1 547	1 849	**2 187**	
– Foreign operations	(33)	(61)	(108)	(169)	(132)	(228)	(284)	(339)	**(452)**	
Headline earnings	51	130	236	356	406	509	531	886	**934**	44%
Abnormal items*	–	–	(45)	(84)	–	–	161	34	**23**	
Headline earnings before abnormal items	51	130	191	272	406	509	692	920	**957**	44%
Diluted headline earnings per share before abnormal items	14.3	33.6	48.1	65.7	77.4	94.2	126.4	168.4	**174.7**	37%
Balance sheet extracts										
Total assets	1 298	2 082	2 308	3 349	4 032	5 280	6 792	8 643	**10 793**	30%
Shareholders' funds	406	576	928	1 164	2 503	3 290	4 212	5 362	**6 164**	40%
Embedded value										
Embedded value (R million)	2 114	3 156	3 321	4 928	6 832	9 173	10 587	14 166	**16 464**	29%
Diluted embedded value per share (R)	5.50	8.15	8.26	12.20	12.89	16.93	19.47	25.64	**29.61**	23%
Key ratios										
Return on average equity (%)	21	30	38	39	24	20	18	22	**20**	
Return on average assets (%)	5	8	11	13	11	12	11	14	**12**	
Capital adequacy requirement (times)	–	–	–	–	10.2	12.9	14.0	10.5	**7.0**	
Exchange rates										
Rand/US$										
– Closing	6.77	8.07	10.31	7.56	6.18	6.68	7.13	7.07	**7.82**	
– Average	6.40	7.42	9.19	8.89	6.77	6.19	6.44	7.21	**7.30**	
Rand/GBP										
– Closing	10.26	11.35	15.75	12.47	11.20	11.97	13.15	14.17	**15.60**	
– Average	9.88	10.81	14.81	14.12	11.83	11.50	11.45	13.99	**14.66**	
Share statistics										
Number of ordinary shares in issue										
– Weighted average (000's)	378 285	388 417	390 411	391 714	504 051	519 188	528 946	536 560	**543 016**	
– Diluted weighted average (000's)	386 970	400 047	414 701	430 963	536 025	553 227	574 871	546 579	**547 530**	
– End of period (000's)	384 979	386 026	390 625	397 800	532 416	548 957	591 953	591 953	**591 953**	
Price/diluted headline earnings (times)	78.7	32.5	12.2	8.7	16.6	23.4	20.7	17.9	**12.7**	
Share price (cents per share):										
– High	1 310	1 300	1 140	900	1 425	2 550	2 700	3 350	**3 047**	
– Low	745	1 000	640	590	695	1 210	1 825	2 020	**2 060**	
– Closing	1 125	1 090	720	745	1 283	2 200	2 010	2 903	**2 170**	
Market capitalisation (R million)	4 331	4 207	2 812	2 964	6 831	12 077	11 898	17 184	**12 845**	

* *Abnormal items include BEE expenses*

Report of the chief financial officer

for the year ended 30 June 2008

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

BASIS OF PREPARATION

These annual financial statements relate to the Discovery Holdings group of companies ("Discovery"). In order to provide a better understanding of Discovery's results, the results have been provided on a segmental basis on page 82 and 83. The segments into which Discovery has been divided are:

Health South Africa – the provision of administration and managed care services to the Discovery Health Medical Scheme and several smaller closed schemes.

Health United States of America – the provision and administration of health insurance products to employer groups and individuals in the United States of America.

Health United Kingdom – the provision and administration of health insurance products to employer groups and individuals in the United Kingdom, together with the Prudential Assurance Company Limited.

Life South Africa – the provision of a risk-only life assurance product and a niche retirement offering as well as a full range of investment products in the South African market.

Life United Kingdom – the provision of a risk-only life assurance product in the United Kingdom, together with the Prudential Assurance Company Limited.

Vitality – the provision of health and lifestyle benefits with selected partners to medical scheme members and Discovery Life policyholders. This includes the results from offering KeyClub benefits to KeyCare members.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of Discovery, as this is the basis on which the Group's affairs are managed.

ACCOUNTING POLICIES

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

REVIEW OF GROUP RESULTS

Discovery continued to produce strong, consistent earnings growth, despite significant investment in new products and opportunities. Continued operational efficiencies in Discovery Health, coupled with strong, high-quality new business growth in Discovery Life and PruHealth, supported 39% growth in operating profits from existing businesses (excluding investment income) to R1 280 million. Inclusion of the investment income, costs incurred on the new businesses and a higher tax charge resulted in a 4% growth in headline earnings (excluding the impact of the BEE transaction) to R957 million for the year ended 30 June 2008. Unrealised losses on available-for-sale investments of R25 million for the year have been taken directly to reserves and are not included in earnings.

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

New business annualised premium income excluding Destiny increased 18% for the year ended 30 June 2008.

New business annualised premium income

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

Gross inflows under management, which in our belief is the most appropriate measure of the scale of our operations, has grown by 20% per annum compounded over the past 5 years, to R27.7 billion in 2008. This is driven by growth in all business areas.

Gross inflows under management

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

GROUP OPERATING RESULTS

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

Earnings source

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

TAXATION

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

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

R27 million has been included in finance charges relating to a settlement discount on early payment by Prudential for UK tax losses ceded to them.

SHARE-BASED PAYMENTS

The issue of 38.7 million shares by Discovery in terms of its BEE transaction in 2005 has been accounted for in terms of IFRS 2. These shares are not accounted for as issued in the consolidated accounts of Discovery but rather as a share option transaction. These shares have been considered in the calculation of diluted HEPS and diluted EPS.

The BEE transaction has resulted in a charge to the income statement of R23 million in the year ended 30 June 2008 (2007: R34 million) in accordance with the requirements of IFRS 2.

An additional R19 million (2007: R63 million) in respect of options granted under employee share incentive schemes has been expensed in the income statement for the year in accordance with the requirements of IFRS 2.

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

CASH FLOW FROM OPERATIONS

The group generates significant cash from all its South African operations.

Cash generated by operations net of policyholder inflows

R million	June 2008	June 2007
Discovery Health	**1 004**	669
Discovery Life and Discovery Invest	**(47)**	23
Discovery Vitality	**90**	53
Destiny Health	**(223)**	(81)
PruHealth	**(339)**	(158)
Holdings	**(20)**	126
Cash generated by operations including working capital changes	**465**	632

NINE-YEAR REVIEW

The nine-year review of key financial indicators is set out on page 41. It is pleasing to note that profit from operations has increased by a compound growth of 39% per annum since 2000 from R122 million to R1 735 million due to the strong growth in all of Discovery's operations.

BALANCE SHEET

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

R million	June 2008	June 2007	% change
Health South Africa and Vitality	**679**	835	(27)
Life	**5 057**	4 363	16
Destiny	**33**	75	(56)
PruHealth	**446**	203	120
PruProtect	**(105)**	–	
Consolidation entries	**54**	(114)	
	6 164	5 362	15

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

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

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

FINANCIAL SERVICES BOARD DIRECTIVE 145

In November 2004, the Financial Services Board issued directive 145 regarding the treatment of negative reserves. This directive provides clarity regarding the treatment of negative reserves as well as the calculation of the Termination Capital Adequacy Requirement (TCAR) relating to negative reserves. The directors believe that the application of this directive more appropriately represents the financial soundness of Discovery Life and have applied it in the statutory returns of Discovery Life.

Following the application of this directive, the capital adequacy requirements of Discovery Life are R174 million (2007: R145 million), and the qualifying excess of assets over liabilities is R1 210 million (2007: R1 522 million). This results in a capital adequacy cover of 7.0 times (2007: 10.5 times).

CAPITAL MANAGEMENT

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

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

DHIC is required to hold capital equal to one quarter of its annualised premium income. As at 30 June 2008, DHIC held approximately US$4.5 million (2007:US$8.7 million) for this purpose.

The capital requirements of PruHealth have been funded equally by each of the joint venture partners. As at 30 June 2008, PruHealth was required to hold GBP18.2 million (2007: GBP16.1 million) in capital. At that date, PruHealth held GBP62.5 million (2007: GBP29.4 million) in available capital to meet this requirement.

DIVIDEND POLICY

Dividends paid in 2008 totalled R236 million and comprised of a final dividend of 21 cents per share paid on 22 October 2007 and an interim dividend of 21,5 cents per share paid on 25 March 2008.

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

Dividend declaration:

The directors are of the view that the Group is sufficiently capitalised at this time and the board has declared a final dividend of 23 cents per share.

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 R16.5 billion at 30 June 2008 (2007: R14.2 billion – restated). The embedded value calculation includes the shareholders' net assets at the values reflected in the consolidated balance sheet on page 78.

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

	Health and Vitality	Life	PruHealth	Other	Total
Value of in-force business at 30 June 2007	5 643	5 826	168	–	11 637
Expected return (in-force business)	625	639	15	–	1 279
Release of profits (in-force business)	(741)	(842)	31	–	(1 552)
Value of new business as at point of sale	207	561	37	–	805
Expected return (new business)	25	92	5	–	122
Release of profits (new business)	142	978	117	–	1 237
Experience variances	625	105	(32)	–	698
Methodology changes	490	(261)	(47)	–	182
Change in STC costs	(33)	(27)	(3)	–	(63)
Foreign exchange rate movements	–	–	24	–	24
Value of in-force business at 30 June 2008	**6 983**	**7 071**	**315**	**–**	**14 369**
Shareholders' funds per Balance Sheet	**679**	**5 057**	**446**	**(18)**	**6 164**
Adjustment for assets under insurance contracts and deferred acquisition costs	**–**	**(3 845)**	**(34)**	**–**	**(3 879)**
Run-down costs for Destiny Health	**–**	**–**	**–**	**(190)**	**(190)**
Embedded value at 30 June 2008	**7 662**	**8 283**	**727**	**(208)**	**16 464**

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 53 to 60.

The embedded value of new business for the year ended 30 June is set out in the following table:

	June 2008	June 2007 restated	% change
Health and Vitality			
Gross profit from new business at point of sale	**213**	129	
Cost of capital	**–**	–	
Cost of STC	**(6)**	(3)	
Net profit from new business at point of sale	**207**	126	64
Life			
Gross profit from new business at point of sale	**589**	639	
Cost of capital	**(12)**	(8)	
Cost of STC	**(16)**	(15)	
Net profit from new business at point of sale	**561**	616	(9)
PruHealth			
Gross profit from new business at point of sale	**48**	–	
Cost of capital	**(10)**	–	
Cost of STC	**(1)**	–	
Net profit from new business at point of sale	**37**	–	

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 2008	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)	**805**	828	(23)	–	–	–
– Health and Vitality	**207**	207	–	–	–	–
– Life	**561**	573	(12)	–	–	–
– PruHealth	**37**	48	(11)	–	–	–
Profit from existing business						
Expected return	**1 401**	1 088	(0)	313	–	–
– Health and Vitality	**659**	50	–	609	–	–
Expected transfer from VIF & VNB to net worth	**10**	(599)	–	609	–	–
Unwinding of the risk discount rate	**649**	649	–	–	–	–
– Life	**722**	869	(0)	(147)	–	–
Expected transfer from VIF & VNB to net worth	**(8)**	139	–	(147)	–	–
Unwinding of the risk discount rate	**730**	730	(0)	–	–	–
– PruHealth	**20**	169	(0)	(149)	–	–
Expected transfer from VIF & VNB to net worth	**(0)**	148	1	(149)	–	–
Unwinding of the risk discount rate	**20**	21	(1)	–	–	–
Change in methodology and assumptions	**203**	178	4	21	–	–
– Health and Vitality	**490**	490	–	–	–	–
– Life	**(240)**	(270)	9	21	–	–
– PruHealth	**(47)**	(42)	(5)	–	–	–
Experience variances	**728**	702	(4)	30	–	–
– Health and Vitality	**740**	625	–	115	–	–
– Life	**30**	109	(4)	(75)	–	–
– PruHealth	**(42)**	(32)	(0)	(10)	–	–
Other new initiative costs	**(563)**	–	–	(563)	–	–
Acquisition costs	**4**	–	–	4	–	–
Foreign exchange rate movements	**64**	27	(3)	4	–	36
Cost of STC	**(63)**	(63)	–	–	–	–
Return on shareholders' funds	**90**	–	–	333	–	(243)
– Unrealised gain on investments and realised gain on investments transferred to income statement	**(243)**	–	–	–	–	(243)
– Health and Vitality investment income	**34**	–	–	34	–	–
– Life investment income	**294**	–	–	294	–	–
– PruHealth investment income	**5**	–	–	5	–	–
Share Based Payments	**–**	–	–	(30)	–	30
Change in adjustment to shareholders' funds	**–**	–	–	1 046	(1 046)	–
Run-down costs for Destiny Health	**(190)**	(190)	–	–	–	–
Embedded value earnings	**2 479**	2 570	(26)	1 158	(1 046)	(177)

Directors' responsibility statement

DIRECTORS' RESPONSIBILITY TO THE MEMBERS OF DISCOVERY HOLDINGS LIMITED AND ITS SUBSIDIARIES ("DISCOVERY")

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

The directors have reviewed Discovery's budget and flow of funds forecast for the year to 30 June 2009. 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 50.

The annual financial statements of Discovery for the year ended 30 June 2008, which appear on pages 51, 52, 62 to 144, have been approved by the board of directors on 2 September 2008 and are signed on its behalf by:

A Gore
Chief Executive Officer

B Swartzberg
Group Executive Officer

Certificate by the company secretary

It is hereby certified that, in terms of section 268G(d) of the Companies Act, that Discovery Holdings Limited has for the year ended 30 June 2008 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 independent auditors

To the members of

DISCOVERY HOLDINGS LIMITED

We have audited the annual financial statements and group annual financial statements of Discovery Holdings Limited, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 30 June 2008, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 51, 52, 62 to 144.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the group as of 30 June 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: BA Stott
Registered Auditor

Johannesburg
2 September 2008

Directors' report
for the year ended 30 June 2008

The directors present their ninth annual report, which forms part of the audited financial statements of the company and of the Group for the year ended 30 June 2008.

NATURE OF BUSINESS

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

- Discovery Life Limited ("Discovery Life");
- Discovery Life Collective Investments (Proprietary) Limited;
- Discovery Life Investment Services (Proprietary) Limited;
- Discovery Life Nominees (Proprietary) Limited;
- Discovery Health (Proprietary) Limited ("Discovery Health");
- Vitality Healthstyle (Proprietary) Limited ("Vitality");
- Vitality Healthstyle Travel (Proprietary) Limited (ceased trading effective 1 February 2004);
- Discovery Nominees (Proprietary) Limited (dormant);
- Destiny Health Inc. ("Destiny Health"), which is incorporated in the United States of America;
- Destiny Health Management Company LLC, which is incorporated in the United States of America;
- Destiny Health Insurance Company, which is incorporated in the United States of America;
- Destiny Health Administration Company (dormant), which is incorporated in the United States of America;
- Vitality Group Inc., which is incorporated in the United States of America;
- Discovery Offshore Holdings Limited, which is incorporated in England and Wales; and
- Prudential Health Holdings Limited which is incorporated in England and Wales. This company holds Discovery's interest in Prudential Health Limited ("PruHealth") and Prudential Health Services Limited.

Discovery Holdings and its subsidiaries are referred to herein as "Discovery". The subsidiaries are wholly-owned with the exception of Destiny Health in which Discovery has a 98.98% interest.

Discovery Life is a long-term insurer in South Africa. Discovery Life offers a suite of risk benefit products and investment products in the South African market. Discovery Life, until January 2004, offered reinsurance of medical scheme risks. Discovery Health is a specialised administrator offering various services to medical schemes, Discovery Life, Destiny Health and PruHealth. Vitality offers a rewards programme incentivising its members to lead healthy lives and rewarding lifestyles. Destiny Health provided health insurance products to employer groups and individuals in the USA. In February 2008, the exit of Destiny Health from the US retail insurance market was announced. The business will be run off over the next 18 months. Destiny will continue to market its Vitality product on a stand-alone basis to employer groups and health plans. Discovery has a 50% interest in Prudential Health Holdings Limited together with Prudential Assurance Company Limited. PruHealth provides and administers health insurance products to employer groups and individuals in the UK. PruHealth is also entitled to the profits and losses and assets and liabilities of PruProtect, a joint venture to provide consumer-engaged life insurance to clients in the UK on Prudential Assurance Company's license.

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

Discovery 2010 Fund
Discovery 2015 Fund
Discovery 2020 Fund
Discovery 2025 Fund
Discovery 2030 Fund
Discovery 2035 Fund
Discovery 2040 Fund
Discovery Absolute Return Fund
Discovery Balanced Fund
Discovery Diversified Income Fund
Discovery Equity Fund
Discovery Flexible Property Fund
Discovery Global Balanced Fund of Funds
Discovery Global Equity Feeder Fund
Discovery Money Market Fund

GENERAL REVIEW

The financial position and results are reflected on pages 51, 52, 62 to 144. The Group's attributable share of profits and losses from subsidiary companies for the year ended 30 June is set out below:

R million	Group 2008	Group 2007	% change
Aggregate profits after taxation from local subsidiaries	**1 586**	1 269	25
Loss from Destiny Health net of minority share of loss	**(191)**	(97)	
Loss from PruHealth after taxation	**(140)**	(99)	
Loss from PruProtect after taxation	**(99)**	–	
	1 156	1 073	8

Directors' report (continued)
for the year ended 30 June 2008

SHARE CAPITAL

The authorised share capital is 1 000 000 000 ordinary shares of 0.1 cent per share. The issued share capital of the company at 30 June 2008 was 591 953 180 ordinary shares of 0.1 cent per share.

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

DIVIDENDS

The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirements of Discovery Life as at 30 June 2008 was R174 million (2007: R145 million) and was covered 7.0 times (2007: 10.5 times).

Dividend Declaration:

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

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

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

DIRECTORATE AND SECRETARY

Details of the directors, their emoluments, participation in share incentive schemes and interests in the company are reflected on pages 142 to 144. Mr AL Owen was appointed as non-executive director to the board of Discovery with effect from 6 December 2007. Mr P Cooper and Ms T Slabbert were appointed non-executive directors from 1 January 2008. Mr LL Dippenaar, Mr PK Harris and Mr JP Burger resigned as non-executive directors of the board of Discovery with effect from 31 December 2007.

Dr TV Maphai and Ms SE Sebotsa 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 25.

DIRECTORS' INTERESTS IN CONTRACTS

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

SUBSIDIARIES

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

BORROWING POWERS

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

AUDITORS

PricewaterhouseCoopers Inc will continue in office in accordance with section 270(2) of the Companies Act.

Embedded value statement

for the year ended 30 June 2008

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

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

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

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

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

The business of writing life and health insurance requires Discovery Life Limited and PruHealth to maintain solvency capital. The cost of capital in respect of the in-force business is calculated to equal the amount of solvency capital at the valuation date, less the discounted value, using the risk discount rate, of the expected annual release of this capital over the projection term, allowing for the return after tax and investment management charges on the expected level of solvency capital.

In line with Discovery's current dividend policy, the cost of STC is calculated assuming a 4.5 times dividend cover on the after-tax profits as they emerge over the projection term. An STC rate of 10% is assumed. The total STC charge has been apportioned between the different business entities based on their contribution to the total value of in-force.

CONSOLIDATED EMBEDDED VALUE

The consolidated embedded value statement is shown in Table 1 below.

Table 1: Group embedded value

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

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

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

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

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

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

Embedded value statement (continued)

for the year ended 30 June 2008

SHAREHOLDERS' REQUIRED RETURN

The shareholders' required return, or risk discount rate, is used to calculate the discounted value of future profits. At 30 June 2008, a discount rate of 14.00% was used in South Africa and 8.70% was used in the United Kingdom.

VALUE OF IN-FORCE BUSINESS

The value of in-force business is shown in Table 2 below.

Table 2: Value of in-force business

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

(1) Included in the Life value of in-force is R41 million in respect of investment management services provided on off-balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth. The Life cost of capital is based on a statutory capital adequacy requirement at June 2008 of R174 million (June 2007: R145 million).

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

EMBEDDED VALUE EARNINGS

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

Table 3: Group embedded value earnings

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

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

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

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

(2) For June 2007, the other initiative costs reflect the expenses relating to the establishment of PruHealth, PruProtect and Discovery Invest and the support of Destiny Health. For June 2008, this item reflects the expenses relating to the establishment of PruProtect and Discovery Invest and the support of Destiny Health. These costs have not been projected on a recurring basis in the embedded value due to the fact that income from business sold under these initiatives has not been projected or the costs are not expected to recur.

(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 thus the costs are excluded.

PROFIT FROM NEW BUSINESS

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

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. Life new business is defined as 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. Discovery Retirement Optimisers added to existing risk plans are included in the value of new business. Term extensions on existing contracts are not included as new business. PruHealth new business is defined as individuals and employer groups which joined during the reporting period.

Embedded value statement (continued)
for the year ended 30 June 2008

Table 5: Embedded value of new business

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

(1) The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 30 June 2008.

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

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

(3) The new business annualised premium income of R964 million (single premium APE: R71 million) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R243 million, servicing increases of R171 million and future dated investment business of R29 million (single premium APE: R4 million) was R1 407 million (single premium APE: R75 million). Single premium business is included at 10% of the value of the single premium.

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

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

(6) The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month as well as premiums in respect of new business written during the period but only activated after 30 June 2008.

EXPECTED RETURN

The risk discount rate is the return investors would have expected to earn on the previous year's value of in-force business. This amount is reflected as the expected return of R1 401 million.

CHANGE IN METHODOLOGY AND ASSUMPTIONS

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

Table 6: Methodology and assumption changes

	Health and Vitality		Life		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]	–	–	(0)	60	–	–	60
Economic assumptions	–	45	17	(390)	–	(41)	(369)
Lapse assumption[2]	–	(13)	(21)	(172)	–	(23)	(229)
Mortality and morbidity	–	–	26	(7)	–	43	62
Premium increases[3]	–	–	(1)	181	–	–	180
Expenses[4]	–	427	–	–	–	33	460
Tax[5]	–	84	(0)	67	–	9	160
Vitality benefits	–	(53)	–	–	–	(68)	(121)
Total	–	490	21	(261)	–	(47)	203

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

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

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

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

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

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

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

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

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

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

Embedded value statement (continued)

for the year ended 30 June 2008

RETURN ON SHAREHOLDERS' FUNDS

The return on shareholders' funds of R90 million represents the investment return earned 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

- For Life, it is assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 100% equities for the purposes of calculating the cost of capital at risk. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.
- The investment return assumption was based on a single interest rate derived from the risk free zero coupon yield curve. Other economic assumptions were set relative to this yield. The risk discount rate has been set relative to the risk-free rate, increased by a risk premium. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.
- In line with Discovery's current dividend policy, the cost of STC is calculated assuming a 4.5 times dividend cover on the after-tax profits as they emerge over the projection term.
- A notional allocation of corporate overhead expenses has been made to each of the subsidiary companies based on managements' view of each subsidiary's contribution to overheads. The corporate overhead expense allocation to Destiny Health has not been included under Destiny Health in the segmental income statement.

Health and Vitality

- The embedded value term has been increased from ten years to twenty years for Health and Vitality. For the 20 year term projection, the lapse rate assumption in the later years has been increased.
- 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. Negative turnover on employer groups is not modelled as lapses.
- Renewal expense assumptions have been based on the results of the latest expense information.

Life

- Mortality, morbidity and lapse assumptions were derived from internal experience, where available, augmented by reinsurance and industry information. An additional lapse rate is assumed over the next two years 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.
- Renewal expense assumptions have been based on the results of the latest expense and budget information.

PruHealth

- The PruHealth assumptions were derived from internal experience augmented by industry information.
- Best estimate morbidity assumptions and forecast Vitality costs allow for the impact of management actions.
- The embedded value projection term has been set at twenty years.

Table 8: Embedded value economic assumptions

	30 June 2008	30 June 2007
Risk discount rate (%)		
– Health and Vitality	**14.00**	11.75
– Life	**14.00**	11.75
– PruHealth	**8.70**	8.00
Medical inflation (%)		
– South Africa	**10.00**	7.75
– United Kingdom	**Current levels reducing to 7.50% over the projection period**	Current levels reducing to 7.50% over the projection period
Expense inflation (%)		
– South Africa	**7.00**	4.75
– United Kingdom	**6.00% initially, reducing to 4.00% after two years**	4.00
Pre-tax investment return (%)		
South Africa – Cash	**9.50**	7.25
– Bonds	**11.00**	8.75
– Equity	**13.00**	10.75
United Kingdom – Cash	**5.25**	5.25
Dividend cover ratio	**4.5 times**	4.5 times
Income tax rate (%)		
– South Africa	**28.00**	29.00
– United Kingdom	**28.00**	28.00
Projection term		
– Health and Vitality	**20 years**	20 years
– Group Life	**10 years**	10 years
– PruHealth	**20 years**	20 years

Embedded value statement (continued)

for the year ended 30 June 2008

SENSITIVITY TO THE EMBEDDED VALUE ASSUMPTIONS

In order to illustrate the effect of using different assumptions, the sensitivity of the embedded value at 30 June 2008 to changes in the key assumptions is shown below. For each sensitivity illustrated, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

Table 9: Embedded value sensitivities

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

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

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

Table 10: Value of new business sensitivities

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

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

Report on review of group consolidated embedded value statement of Discovery Holdings Limited and its subsidiaries

for the year ended 30 June 2008

TO THE DIRECTORS OF DISCOVERY HOLDINGS LIMITED

We have reviewed the group consolidated embedded value statement of Discovery Holding Limited and its subsidiaries ("Discovery") for the year ended 30 June 2008, as set out on pages 53 to 60 of the attached report, which has been prepared in accordance with the applicable guidelines of the Actuarial Society of South Africa PGN 107: Embedded Values and Value of New Business. Management is responsible for the preparation and presentation of the group consolidated embedded value statement. Our responsibility is to express a conclusion on the group consolidated embedded value statement at 30 June 2008 based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagement: ISRE 2410. A review of the group consolidated embedded value statement consists of making inquires, 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. The engagement was performed under the supervision of Mark Claassen (FIA), head of the Actuarial and Insurance Management Solutions practice of PricewaterhouseCoopers Inc.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the group consolidated embedded value statement of Discovery for the year ended 30 June 2008 is not prepared, in all material aspects, in accordance with the requirement of PGN 107. PGN 107 represents best practice guidance issued by the Actuarial Society of South Africa and relates to long-term insurance business. In those cases where business other than long-term insurance business has been included in the value of in force for embedded value purpose, similar principles to those contained in PGN 107 have been used to value such business.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: **BA Stott**
Registered Auditor

Johannesburg
2 September 2008

Group accounting policies
for the year ended 30 June 2008

1. GENERAL INFORMATION

Discovery Holdings Limited is listed in the insurance sector of the JSE Limited. The Group consists of Discovery Health, Discovery Life, Discovery Collective Investments and Discovery Investment Services ("Discovery Invest"), Discovery Vitality, the Destiny group of companies (USA) and PruProtection (UK). All operations take place within 100%-owned subsidiaries, with the exception of the Destiny group of companies in which Discovery Holdings Limited has a 98.98% interest (with management owning the balance) and PruProtection in which Discovery Holdings Limited has a 50% interest held indirectly via a wholly-owned subsidiary Discovery Offshore Holdings Limited.

1.1 Discovery Health

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

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

1.2 Discovery Life

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 and Vitality.

Discovery Life Plan – Individual Life

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

Health Plan Protector

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

Discovery Retirement Optimiser

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

DiscoveryCard Protector

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

Group Life

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.

1.3 Discovery Invest

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

1.4 Destiny Health – *Health insurance*

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

1.5 PruProtection

1.5.1 PruHealth – *Health insurance*

The PruHealth product offers policyholders 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.

1.5.2 PruProtect – *Life assurance*

PruProtect is Discovery's life assurance joint venture whose strategy mirrors that of Discovery Life, as it is based on the Vitality structure and enables dynamic pricing to be employed in the UK life assurance market.

1.6 Discovery Vitality

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

2. BASIS OF PRESENTATION

Discovery's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting policies are consistent with those adopted in the previous year.

Discovery prepares its audited consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities. These financial assets and liabilities include:

- financial instruments classified as available-for-sale held at fair value through equity;
- derivative financial instruments at fair value through profit or loss;
- financial instruments designated as held at fair value through profit or loss;
- policyholder liabilities and assets arising from insurance contracts that are valued in terms of the Financial Soundness Valuation (FSV) basis as outlined under accounting policy 22 below; and
- financial instruments classified as originated loans carried at amortised cost.

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

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

New standards, amendments and interpretations effective for Discovery's 2008 financial year

The following new standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 and have been adopted.

- IFRS 7: *Financial Instruments* (effective for years commencing on or after 1 January 2007) – The standard deals with the disclosure of financial instruments and the related qualitative and quantitative risks. The statement therefore does not impact the results of Discovery but does impact the format and extent of disclosure related to financial instruments. Comparative information has been provided where applicable.
- IAS 1 (amendment): *Presentation of Financial Statements* (effective for years commencing on or after 1 January 2007) – The amendment to IAS 1 relates to capital disclosures which requires specific disclosures regarding an entity's objectives, policies and processes for managing capital.
- IFRIC 10: *Interim financial reporting and impairment* (effective for annual periods commencing on or after 1 November 2006) – This interpretation addresses an apparent conflict between the requirements of IAS 34 Interim Financial Reporting and those in other standards on the recognition and reversal in financial statements of impairment losses on goodwill and certain financial assets. IFRIC 10 concludes that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. There has been no impact on Discovery's results.
- IFRIC 11: *IFRS 2 – Group and treasury share transactions* (effective from annual periods beginning on or after 1 March 2007) – IFRIC 11 provides guidance on applying IFRS 2 in three circumstances:

  - Share-based payments involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation should always be accounted for as equity-settled share-based transactions under IFRS 2.
  - If a parent grants rights to its equity instruments to employees of its subsidiary and assuming the transaction is accounted for as equity-settled in the consolidated financial statements, the subsidiary must measure the services received using the requirements for equity-settled transactions in IFRS 2, and must recognise a corresponding increase in equity as a contribution from the parent.
  - If a subsidiary grants rights to equity instruments of its parent to its employees, the subsidiary accounts for the transaction as a cash-settled share-based payment transaction.

  Discovery chose to early adopt IFRIC 11 for the 2007 financial year. There was no impact on Discovery's consolidated results, as the scheme was already classified as equity-settled on consolidation.

New standards and interpretations to published standards that are not yet effective

The following new standards and interpretations are not yet effective for the current financial year. Where applicable, Discovery will comply with the new statements and interpretations from the effective date.

- IFRS 8: *Operating segments* (effective for annual periods beginning on or after 1 January 2009) – IFRS 8 specifies how an entity should report information about its operating segments in the annual financial statements. The requirements of IFRS 8 are based on the information about the components of the entity that management uses to make operating decisions. This statement will therefore not impact the results of Discovery and is not expected to impact the identification and measurement of segment results.
- IAS 1: *Presentation of financial statements* (Revised 2007) (effective for annual periods commencing on or after 1 January 2009) – This amendment requires that an entity must present all non-owner changes in equity either in one statement of comprehensive income or in two statements; a separate income statement and a statement of comprehensive income. All owner changes in equity are recognised in a statement of changes in equity.
  Comprehensive income for a period includes profit or loss for that period plus other income. Other income comprises income or expense items that are not recognised in profit or loss as required or permitted by other standards. The standard does not change the recognition, measurement or disclosure of specific transactions.
- IAS 23: *Borrowing Costs* (effective by annual periods commencing on or after 1 January 2009) – The standard has eliminated the option of immediate recognition of borrowing costs, which are directly attributable to the acquisition, construction or production of a qualifying asset, as an expense. This standard will not impact the results of Discovery.
- IFRIC 13: *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008) – IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ("awards") to customers who redeem award credits. The key provisions are as follows:
  - An entity that grants loyalty award credits shall allocate some of the proceeds of the initial sale to the award credits as a liability (its obligation to provide the awards). In effect, the award is accounted for as a separate component of the sale transaction.
  - The amount of proceeds allocated to the award credits is measured at their fair value, that is, the amount for which the award credits could have been sold separately.
  - The entity shall recognise the deferred portion of the proceeds as revenue only when it has fulfilled its obligations. It may fulfil its obligations either by supplying the awards itself or by engaging (and paying) a third party to do so.
  - If at any time the expected costs of meeting the obligation exceed the consideration received, the entity has an onerous contract for which IAS 37 would require recognition of a liability.
  - If IFRIC 13 causes an entity to change its accounting policy for customer loyalty awards, IAS 8 applies.

  This statement is expected to have a minor impact on the results of Discovery but will impact the disclosure of the Discovery Miles earned on the DiscoveryCard.
- The following interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008, but they are not relevant to Discovery's operations:
  - IFRIC 12: *Service concession arrangements*
  - IFRIC 14 IAS 19: *The limit on a Defined Benefit Asset, mimimum funding requirements and their interaction.*

3. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which Discovery, directly or indirectly, has the power to exercise control over the operations for its own benefit. Discovery considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which Discovery acquires effective control. Consolidation is discontinued from the effective date of disposal.

Discovery consolidates a special purpose entity ("SPE") when the substance of the relationship between Discovery and the SPE indicates that Discovery controls the SPE.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by Discovery.

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

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

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

Interests in unit trusts in the company financial statements, that are subsidiaries by definition, are designated at fair value through profit or loss and measured as set out in note 11 to the accounting policies.

4. ASSOCIATES

Associates are entities in which Discovery has the ability to exercise significant influence but not control, generally accompanying an equity interest of between 20% and 50%.

Discovery includes the results of associates in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. Discovery's interest in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include Discovery's share of earnings of associated companies. Discovery's reserves include its share of post-acquisition movements in reserves of associated companies. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated company.

Discovery discontinues equity accounting when the carrying amount of the investment in an associated company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking. Discovery increases the carrying amount of investments by its share of the associated company's income when equity accounting is resumed.

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

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. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by Discovery.

6. FOREIGN CURRENCY TRANSLATION

6.1 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.

6.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

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

6.3 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 of Discovery are translated at the actual rates into the presentation currency as follows:

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

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

7. RECOGNITION OF ASSETS

7.1 Assets

Discovery recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

7.2 Contingent assets

Discovery discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within Discovery's control.

8. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

8.1 Liabilities and provisions

Discovery recognises liabilities, including provisions and on a company level provisions for financial guarantees issued to Group companies, when:

- it has a present legal or constructive obligation as a result of past events; 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.

8.2 Contingent liabilities

Discovery discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

9. OFFSETTING FINANCIAL INSTRUMENTS

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

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

10. CASH AND CASH EQUIVALENTS

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

- coins and bank notes;
- money at call and short notice;
- 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 the short term nature approximates fair value.

11. FINANCIAL INSTRUMENTS

11.1 General

Financial instruments carried on the balance sheet 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. Discovery recognises a financial asset or a financial liability on its balance sheet when and only when, the entity becomes a party to the contractual provisions of the instrument.

11.2 Financial assets

Discovery classifies its financial assets into the following categories:

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

Management determines the classification of the asset at initial recognition.

Financial assets classified as 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.

Financial assets are designated as fair value through profit or loss at inception if they are held to match insurance liabilities and investment contract liabilities held at fair value through profit or loss, or if they are managed and their performance is evaluated on a fair value basis. These assets are subsequently measured at fair value and the fair value adjustments are recognised in the income statement.

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 has designated as held at fair value through profit or loss.

Financial assets classified as available-for-sale:
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 investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The classification depends on the purpose when the asset was acquired and, with the exception of those held as fair value through profit or loss, is reassessed on an annual basis.

11.2.1 Initial measurement
Purchases and sales of financial assets are recognised on settlement date, which is the date on which the Group assumes or transfers substantially all risks and rewards of ownership. Financial assets are initially recognised at fair value plus, in the case of financial assets not at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial asset.

11.2.2 Subsequent measurement
Financial assets classified as fair value through profit or loss or as available-for-sale are subsequently carried at fair value. Fair values are based on regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the balance sheet date. Collective Investments are valued at their repurchase price. For unquoted investments the Group establishes fair value by using valuation techniques. These include reference to other instruments that are substantially the same, discounted cash flow and option pricing.

Discovery recognises interest income, dividends, realised and unrealised gains and losses of financial assets classified as fair value through profit or loss, in net fair value gains of financial assets at fair value through profit or loss in the income statement.

Discovery recognises unrealised gains and losses arising from changes in the fair value of available-for-sale assets, in equity. It recognises interest income on these assets as part of investment income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. Dividends on available-for-sale equity instruments are recognised in investment income in the income statement when the entity's right to receive payment is established.

When these assets are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as net realised gains and losses on available-for-sale financial assets.

Loans and receivables:
Loans and receivables are carried at amortised cost using the effective interest rate method less any required impairment.

11.3 Financial liabilities

11.3.1 Initial recognition
Policyholder contracts that do not transfer significant insurance risk are classified in the financial statements as financial liabilities held at fair value through profit or loss ("investment contracts"), with changes in fair value being accounted for in the income statement. The premiums and benefit payments relating to these investment contract financial liabilities have been excluded from the income statement and are accounted for directly as part of the liability.

11.3.2 Subsequent recognition and measurement
Investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets and are designated at inception as at fair value through profit or loss. Valuation techniques are used to establish the fair value at inception and each reporting date.

The Group'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 values that reflect the fair values of the financial assets contained within the Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date. If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period.

11.4 Derecognition of assets and liabilities

Discovery derecognises an asset when the contractual rights to the asset expires, where there is a transfer of the contractual rights that comprise the asset, or Discovery retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

If a transfer does not result in derecognition because Discovery has retained substantially all the risks and rewards of ownership of the transferred asset, Discovery continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, Discovery recognises any income on the transferred asset and any expense incurred on the financial liability.

Where Discovery neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, Discovery shall determine whether it has retained control of the financial asset. In this case:

- if Discovery has not retained control, it derecognises the financial asset and recognises separately, as assets or liabilities, any rights and obligations created or retained in the transfer; or
- if Discovery has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

Discovery derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

12. IMPAIRMENT

12.1 Impairments of financial assets

Discovery assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is impaired if one or more events that have occurred after the initial recognition of the asset have caused the carrying amount to be greater than its estimated recoverable amount. 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;
- adverse changes in the payment status of issuers or debtors in Discovery;
- national or local economic conditions that correlate with defaults on assets in Discovery; or
- in the case of equities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, 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 and the amount of the loss is recognised in the income statement.

If there is objective evidence that an available-for-sale financial asset has been impaired, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

Other than for equity instruments carried at available-for-sale, which are reversed through equity, previously recognised impairment losses are reversed through the income statement. Reversal of impairment losses are limited to ensure that the carrying value of the asset does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

12.2 Impairments of other assets

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

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

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

Discovery initially recognises derivative financial instruments in the balance sheet at fair value and subsequently re-measures these instruments at their fair value.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

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. 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 future cash flows attributable to a recognised asset or liability, or a forecasted transaction (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 highly effective in offsetting changes in fair values or cash flows of hedged items.

13.1 Fair value hedge

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

13.2 Cash flow hedge

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

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

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

14. PROPERTY AND EQUIPMENT

Discovery carries property and equipment at historical cost less depreciation and impairment except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are 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. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Properties held under finance leases are further broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

The average periods of depreciation used are as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. 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 reference to the carrying amount of the assets and the net proceeds received, and are recorded in the income statement on disposal.

15. LEASES

15.1 Finance leases

Discovery classifies finance leases as property and equipment where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. Discovery allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement over the lease period. The property and equipment 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.

15.2 Operating leases

Discovery classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments.

Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

16. INTANGIBLE ASSETS

16.1 Computer software development costs

Discovery generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for Discovery exceeding the costs incurred for more than one financial period, Discovery capitalises such costs and recognises them as an intangible asset.

Discovery carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

16.2 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 22.11.

The amortisation of deferred acquisition costs is reflected under acquisition costs in the income statement.

16.3 Other intangible assets

Discovery does not attribute value to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts.

Discovery generally expenses the costs incurred on trademarks, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

The amortisation and impairments of other intangible assets are reflected under marketing and administration expenses in the income statement.

17. DEFERRED INCOME TAX

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

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

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

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

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 Termination benefits

Discovery recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. Discovery has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

18.4 Leave pay

Discovery recognises in full employees' rights to annual leave entitlement in respect of past service.

18.5 Profit share and bonus plan

Discovery recognises a liability and an expense for bonuses and profit-sharing, based on a formula where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

18.6 Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

19. SHARE CAPITAL

19.1 Share issue costs

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 as a deduction from equity.

19.2 Dividends paid

Dividends on ordinary shares are recognised against equity in the period in which they are approved by the company's shareholders. Dividends declared after the balance sheet date are not recognised but disclosed as a post balance sheet event.

20. SEGMENT REPORTING

Discovery defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segment"); or
- products or services within a particular economic environment ("geographical segment");

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

Discovery uses its business segments as its primary reporting format. At 30 June 2008, Discovery is organised into six business segments:

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

Health United States of America: offers consumer driven health insurance products to employer groups and individuals in the United States of America in association with AEGON Life Assurance Company. Destiny further acts as a third-party administrator to Guardian Life Insurance Company of America. All contracts in this segment are short-term insurance contracts.

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.

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.

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.

Vitality: offers health and lifestyle benefits with selected partners to the Group's clients. This segment includes the DiscoveryCard which is offered to clients within South Africa.

21. SHARE-BASED PAYMENT TRANSACTIONS

Discovery operates equity-settled and cash-settled share-based compensation plans.

21.1 Equity-settled share-based compensation plans

Discovery expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, Discovery revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit and loss immediately.

21.2 Cash-settled share-based compensation plans

Discovery recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is remeasured at each balance sheet date to its fair value, with all changes recognised immediately in profit or loss.

22. POLICIES RELATING TO INSURANCE OPERATIONS ("THE INSURANCE OPERATIONS") AND DISCOVERY INVEST

The Group developed its accounting policies for insurance contracts before the adoption of 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.

22.1 Product classification

Discovery issues contracts that transfer insurance risk or financial risk or a combination of both.

Contracts are classified as insurance contracts if Discovery Life accepts significant insurance risk. Insurance risk is defined as a risk that on the occurrence of a defined uncertain insured event, the amount paid may significantly exceed the amount payable should that event not have occurred. Such contracts may also transfer financial risk.

Investment contracts are 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.

22.2 Investment contracts

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

Investment contracts without fixed benefits are financial liabilities whose fair value is dependent on the fair value of the underlying financial assets and derivatives (unit-linked) and are designated at inception as at fair value through profit or loss.

The Group's valuation methodologies 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 Group's unitised investment funds linked to the financial liability, multiplied by the number of units attributed to the policyholder at the balance sheet date.

For investment contracts with fixed and guaranteed terms, future benefit payments and premium receipts are discounted at market related interest rates.

22.3 Assets and liabilities arising from insurance contracts

Insurance contracts – Individual Life

For the published accounts, the actuarial value of policyholder liabilities is determined based on the Financial Soundness Valuation (FSV) method as detailed in Professional Guidance Note (PGN) 104 issued by the Actuarial Society of South Africa (ASSA).

Where the value of policyholder liabilities is negative, this is shown as an asset under insurance contracts.

The FSV basis is a prospective, discounted cash flow basis calculated as the difference between the present value of future benefit payments plus expenses and the present value of future premiums. The FSV basis uses best estimate assumptions regarding the future experience of claims experience, premium income, expenses and commission. 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 is separately calculated under the FSV methodology.

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 FSV calculation 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 PGN 104. The compulsory margins ensure a minimum level of financial resilience.

  The following compulsory margins are added to the best estimate assumptions:

Margin	Compulsory minimum
Discount rate	0.25% reduction or increase to the discount rate in direction to increase overall insurance liabilities
Renewal expense inflation rate	10% increase in the inflation rate, i.e. from x% to 1.1*x%
Renewal expenses	10% increase in the renewal expense assumption
Mortality incidence rates	7.5% increase in the mortality incidence rate
Morbidity incidence rates	10% increase in the morbidity incidence rate
Management fees on assets under management	0.25% reduction in the management fee
Lapse rates	25% increase or decrease in direction to increase overall insurance liability. (i.e. from y% to 0.75*y% or to 1.25*y%)

  For the discount rate and lapse rate compulsory 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 additional margins are added over and above the compulsory margins 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, 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 PGN 104 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 FSV basis meets the requirement of the liability adequacy test as required by IFRS 4 for individual business and no additional tests are performed.

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

22.4 Liabilities arising from insurance contracts

Individual Life (including the Health Plan Protector)

Where a claim is reported but not yet validated, an estimate of the expected claim amount is included in the claims reported and included in liabilities under insurance contracts. 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.

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.

Group Life

Where a claim is reported but not yet validated, an estimate of the expected claim is included in the claims reported 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.

Health insurance

The Health 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.

22.5 Embedded derivatives

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

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

22.6 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 held. 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 held are recognised as reinsurance assets (classified within loans and receivables). Discovery assesses its reinsurance assets for impairment on an annual basis following the same method used for financial assets.

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

- Where these amounts relate to a reimbursement of expenses the gain is disclosed as a recovery of expenses from reinsurer.
- Other gains or losses are amortised over the life of the insurance policies on the same basis as the profit is expected to emerge. The unearned portion of the gain or loss is included in deferred revenue. The gain is disclosed in reinsurance premiums in the income statement.

22.7 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.

22.8 Premium income

Premiums and annuity considerations receivable under insurance contracts are stated gross of commission, and exclude taxes and levies and are recognised when due.

All premiums are recognised as income other than amounts received under investment contracts which are recorded as deposits to investment contract liabilities.

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

22.9 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 a straight-line basis.

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

22.10 Policyholder benefits

Policyholder benefits paid under insurance contracts include maturities, surrenders, death, disability and severe illness payments.

Maturity and income disability are recorded as incurred. Death, disability and severe illness and surrender claims are accounted for when notified. Group life benefits and benefits payable under health insurance contracts are accounted for as incurred.

Provision is made for the estimated costs of benefits (together with anticipated recoveries under reinsurance arrangements) notified but not settled at the balance sheet date.

Claims incurred on investment contracts are recorded as deductions from investment contract liabilities.

22.11 Acquisition costs

Commission payments for insurance contracts comprise all direct costs arising from the sale of insurance contracts. Commissions are expensed as incurred except for commissions relating to short-term health insurance business where commissions are deferred.

22.12 Deferred acquisition costs ("DAC")

22.12.1 Health insurance business

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

22.12.2 Investment contracts

Deferred acquisition costs on investment contracts represents 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 on a straight-line basis over the period in which the Group expects to recognise the related revenue. The costs of securing the right to provide asset management services do not include transaction costs relating to the origination of the investment contracts.

22.13 Liability adequacy test

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

23. REVENUE

23.1 Insurance premium revenue

Insurance premium revenue includes individual life premiums, group life premiums and health insurance premiums. These are accounted for as described in accounting policy 22.8.

23.2 Fee income on health administration business

Administration fees and managed care fees are included in fee income. These are accounted for on an accrual basis when the services are rendered.

23.3 Investment income

Investment income comprises interest and dividends received on available-for-sale investments, assets held at amortised cost and cash and cash equivalents.

Discovery recognises dividends when Discovery's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Interest is accounted for on an accrual basis using the effective interest rate method.

23.4 Net realised gains on available-for-sale financial assets

Net realised gains comprise realised gains and losses on available-for-sale financial instruments. These gains and losses are accounted for on disposal of the investment.

23.5 Net fair value gains on financial assets at fair value through profit or loss

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial instruments held at fair value through profit or loss.

23.6 Vitality income

Vitality income includes Vitality contributions and sales of benefits offered by Vitality which are accounted for as the services are rendered.

24. MARKETING AND ADMINISTRATION EXPENSES

Marketing and administration expenses include marketing and development expenditure as well as all other non-commission related expenditure and benefits paid under the vitality program and are expensed as incurred.

25. FINANCE COSTS

Borrowing costs are expensed when incurred and these are included in finance costs.

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 the income statement.

Indirect taxes include various other taxes paid to central and local governments, including value added tax and regional services levies. Indirect taxes are disclosed as part of marketing and administration expenses in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Discovery entities operate.

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life insurance companies.

Balance sheet
at 30 June 2008

R million	Notes	Group 2008	Group 2007
ASSETS			
Property and equipment	5	**291**	228
Intangible assets including deferred acquisition costs	6	**243**	113
Assets arising from insurance contracts	7	**3 920**	3 114
Investment in associate	8	**1**	1
Financial assets		**5 299**	4 056
– Equity securities	10	**2 055**	2 155
– Equity linked notes	10	**459**	123
– Debt securities	10	**173**	313
– Inflation linked securities	10	**65**	–
– Money market	10	**1 034**	577
– Derivatives	11	**35**	–
– Loans and receivables including insurance receivables	12	**1 478**	888
Deferred income tax	21	**128**	80
Current income tax asset		**–**	4
Reinsurance contracts	13	**99**	51
Cash and cash equivalents	14	**812**	996
Total assets		**10 793**	8 643
EQUITY			
Capital and reserves			
Share capital and share premium	15	**1 468**	1 393
Other reserves	16	**721**	912
Retained earnings		**3 975**	3 057
Total equity		**6 164**	5 362
LIABILITIES			
Liabilities arising from insurance contracts	17	**1 061**	742
Liabilities arising from reinsurance contracts	18	**15**	20
Financial liabilities		**1 273**	810
– Investment contracts at fair value through profit or loss	19	**1 230**	735
– Borrowings at amortised cost	20	**37**	73
– Derivatives	11	**6**	2
Deferred income tax	21	**1 031**	806
Deferred revenue	22	**70**	122
Provisions	23	**54**	48
Trade and other payables	24	**1 116**	733
Current income tax liabilities		**9**	–
Total liabilities		**4 629**	3 281
Total equity and liabilities		**10 793**	8 643

Income statement
for the year ended 30 June 2008

R million	Notes	Group 2008	Group 2007
Insurance premium revenue		**4 293**	3 710
Reinsurance premiums		**(780)**	(593)
Net insurance premiums	25	**3 513**	3 117
Fee income from administration business		**2 532**	2 142
Investment income	26	**210**	175
Net realised gains on available-for-sale financial assets	27	**252**	195
Net fair value gains on financial assets at fair value through profit or loss	28	**25**	151
Vitality income		**791**	721
Net income		**7 323**	6 501
Claims and policyholders' benefits		**(2 156)**	(1 919)
Insurance claims recovered from reinsurers		**601**	475
Net claims and policyholders' benefits	29	**(1 555)**	(1 444)
Acquisition costs	30	**(1 132)**	(1 015)
Marketing and administration expenses	31,32	**(3 784)**	(3 069)
Recovery of expenses from reinsurers		**148**	91
Transfer from assets/liabilities under insurance contracts		**749**	587
– change in assets arising from insurance contracts	7	**806**	651
– change in liabilities arising from insurance contracts	17	**(55)**	(60)
– change in liabilities arising from reinsurance contracts	18	**(2)**	(4)
Fair value adjustment to liabilities under investment contracts	19	**(14)**	(141)
Profit before BEE expenses		**1 735**	1 510
BEE expenses	32	**(23)**	(34)
Profit from operations		**1 712**	1 476
Finance costs	33	**(52)**	(21)
Foreign exchange profit – unrealised	34	**4**	3
Profit before taxation		**1 664**	1 458
Taxation	35	**(506)**	(385)
Profit for the year		**1 158**	1 073
Attributable to:			
Equity holders		**1 156**	1 073
Minority interests		**2**	–
		1 158	1 073
Earnings per share for profit attributable to the equity holders during the year (cents):	36		
– basic		**212.9**	200.0
– diluted		**211.1**	196.4

Statement of changes in equity
for the year ended 30 June 2008

R million	Attributable to equity holders: Share capital and share premium	Attributable to equity holders: Other reserves	Attributable to equity holders: Retained earnings	Minority interest	Total
	(note 15)	(note 16)			
30 June 2007					
Balance at 1 July 2006	1 348	640	2 224	–	4 212
Issue of capital	45	–	–	–	45
Share-based payments	–	52	–	–	52
Unrealised gains on investments	–	458	–	–	458
Capital gains tax on unrealised gains on investments	–	(48)	–	–	(48)
Realised gains on investments transferred to income statement	–	(195)	–	–	(195)
Capital gains tax on realised gains on investments	–	8	–	–	8
Currency translation differences	–	3	–	–	3
Transfer to hedging reserve	–	(6)	–	–	(6)
Net profit for the period	–	–	1 073	–	1 073
Dividends paid to equity holders	–	–	(239)	–	(239)
Realised loss on minority share buy-back	–	–	(1)	–	(1)
Balance at 30 June 2007	1 393	912	3 057	–	5 362
30 June 2008					
Balance at 1 July 2007	**1 393**	**912**	**3 057**	**–**	**5 362**
Issue of capital	**75**	**–**	**–**	**(2)**	**73**
Share-based payments	**–**	**32**	**–**	**–**	**32**
Unrealised losses on investments	**–**	**(25)**	**–**	**–**	**(25)**
Capital gains tax on unrealised gains on investments	**–**	**4**	**–**	**–**	**4**
Realised gains on investments transferred to income statement	**–**	**(252)**	**–**	**–**	**(252)**
Capital gains tax on realised gains on investments	**–**	**30**	**–**	**–**	**30**
Currency translation differences	**–**	**36**	**–**	**–**	**36**
Transfer to hedging reserve	**–**	**(16)**	**–**	**–**	**(16)**
Net profit for the period	**–**	**–**	**1 156**	**2**	**1 158**
Dividends paid to equity holders	**–**	**–**	**(236)**	**–**	**(236)**
Realised loss on minority share buy-back	**–**	**–**	**(2)**	**–**	**(2)**
Balance at 30 June 2008	**1 468**	**721**	**3 975**	**–**	**6 164**

Of the R3 975 million (2007: R3 057 million) held in retained earnings, R974 million (2007: R1 181 million) is distributable. The balance is held to meet the capital requirements in various Group companies.

Cash flow statement
for the year ended 30 June 2008

R million	Notes	Group 2008	Group 2007
Cash flow from operating activities		**385**	450
Cash generated by operations	38.1	**1 103**	757
Policyholder net investments		**(638)**	(125)
Dividends received		**33**	43
Interest received		**194**	143
Interest paid		**(25)**	(23)
Taxation paid	38.2	**(282)**	(345)
Cash flow from investing activities		**(269)**	(500)
Net purchases of investments		**(76)**	(331)
Purchase of equipment		**(132)**	(108)
Purchase of intangible assets		**(66)**	(61)
Decrease in loans receivable		**5**	–
Cash flow from financing activities		**(334)**	(283)
Proceeds from issuance of ordinary shares	38.3	**50**	48
Dividends paid to equity holders		**(236)**	(239)
Minority share buy-back		**(8)**	(5)
Loan to share trust participants		**(109)**	–
(Repayment)/increase of borrowings	38.4	**(31)**	(87)
Net (decrease)/increase in cash and cash equivalents		**(218)**	(333)
Cash and cash equivalents at beginning of year		**996**	1 322
Exchange gains on cash and cash equivalents		**34**	7
Cash and cash equivalents at end of year	14	**812**	996

Segment information
for the year ended 30 June 2008

(A) PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

R million	Health South Africa	Health United States of America	Health United Kingdom	Life South Africa	Life United Kingdom	Vitality	Holdings	Total
30 June 2008								
Income statement								
Insurance premium revenue	23	667	520	3 076	7	–	–	4 293
Reinsurance premiums	(2)	(70)	(109)	(599)	–	–	–	(780)
Net insurance premiums	21	597	411	2 477	7	–	–	3 513
Fee income from administration business	2 458	–	–	43	–	31	–	2 532
Investment income	39	7	22	109	–	20	13	210
Net realised gains on financial instruments held as available-for-sale	–	–	–	252	–	–	–	252
Net fair value gains on financial instruments at fair value through profit or loss	–	–	–	25	–	–	–	25
Vitality income	–	9	–	–	–	782	–	791
Net income	2 518	613	433	2 906	7	833	13	7 323
Claims and policyholders' benefits	(12)	(629)	(290)	(1 222)	(3)	–	–	(2 156)
Insurance claims recovered from reinsurers	2	56	60	481	2	–	–	601
Net insurance benefits and claims	(10)	(573)	(230)	(741)	(1)	–	–	(1 555)
Acquisition costs	–	(34)	(54)	(956)	(36)	(52)	–	(1 132)
Marketing and administration expenses	(1 582)	(236)	(359)	(775)	(102)	(712)	(18)	(3 784)
Recovery of expenses from reinsurer	–	–	136	–	12	–	–	148
Transfer from assets/liabilities under insurance contracts								
– change in assets arising from insurance contracts	–	–	–	806	–	–	–	806
– change in liabilities arising from insurance contracts	4	45	(59)	(31)	(14)	–	–	(55)
– change in liabilities arising from reinsurance contracts	–	–	–	(2)	–	–	–	(2)
Fair value adjustment to liabilities under investment contracts	–	–	–	(14)	–	–	–	(14)
Profit/(loss) before BEE expenses	930	(185)	(133)	1 193	(134)	69	(5)	1 735
BEE expenses								(23)
Profit from operations								1 712
Finance costs								(52)
Foreign exchange profit – unrealised								4
Profit before taxation								1 664
Taxation								(506)
Profit for the year								1 158
Other segment items included in the income statement:								
Depreciation (Note 5)	68	–	1	1	–	–	–	70
Amortisation (Note 6)	29	3	–	8	–	–	–	40
Balance sheet								
Assets arising from insurance contracts	–	–	–	3 920	–	–	–	3 920
Financial assets	347	227	206	4 120	196	47	156	5 299
Reinsurance assets	–	–	8	69	22	–	–	99
Other assets	520	104	355	345	(11)	134	28	1 475
Total assets	867	331	569	8 454	207	181	184	10 793
Liabilities arising from insurance contracts	–	109	114	794	44	–	–	1 061
Liabilities arising from reinsurance contracts	–	–	–	15	–	–	–	15
Financial liabilities	44	–	–	1 229	–	–	–	1 273
Other liabilities	386	189	127	1 240	120	209	9	2 280
Total liabilities	430	298	241	3 278	164	209	9	4 629
Capital expenditure	177	1	–	22	–	–	–	200

R million	Health South Africa	Health United States of America	Health United Kingdom	Life South Africa	Life United Kingdom	Vitality	Holdings	Total
30 June 2007								
Income statement								
Insurance premium revenue	158	921	278	2 353	–	–	–	3 710
Reinsurance premiums	(3)	(65)	(25)	(500)	–	–	–	(593)
Net insurance premiums	155	856	253	1 853	–	–	–	3 117
Fee income from administration business	2 138	–	–	4	–	–	–	2 142
Investment income	52	13	4	88	–	15	3	175
Net realised gains on financial instruments held as available-for-sale	–	–	–	195	–	–	–	195
Net fair value gains on financial instruments at fair value through profit or loss	–	–	–	151	–	–	–	151
Vitality income	–	–	–	–	–	721	–	721
Net income	2 345	869	257	2 291	–	736	3	6 501
Claims and policyholders' benefits	(128)	(707)	(207)	(877)	–	–	–	(1 919)
Insurance claims recovered from reinsurers	2	64	16	393	–	–	–	475
Net insurance benefits and claims	(126)	(643)	(191)	(484)	–	–	–	(1 444)
Acquisition costs	–	(44)	(32)	(888)	–	(51)	–	(1 015)
Marketing and administration expenses	(1 432)	(256)	(314)	(404)	(36)	(627)	–	(3 069)
Recovery of expenses from reinsurer	–	–	91	–	–	–	–	91
Transfer from assets/liabilities under insurance contracts								
– change in assets arising from insurance contracts	–	–	–	651	–	–	–	651
– change in liabilities arising from insurance contracts	1	(15)	(25)	(21)	–	–	–	(60)
– change in liabilities arising from reinsurance contracts	–	–	–	(4)	–	–	–	(4)
Fair value adjustment to liabilities under investment contracts	–	–	–	(141)	–	–	–	(141)
Profit/(loss) before BEE expenses	788	(89)	(214)	1 000	(36)	58	3	1 510
BEE expenses								(34)
Profit from operations								1 476
Finance costs								(21)
Foreign exchange profit – unrealised								3
Profit before taxation								1 458
Taxation								(385)
Profit for the year								1 073
Other segment items included in the income statement:								
Depreciation (Note 5)	62	3	1	1	–	–	–	67
Amortisation (Note 6)	22	4	–	5	–	–	–	31
Balance sheet								
Assets arising from insurance contracts	–	–	–	3 114	–	–	–	3 114
Financial assets	290	330	145	3 241	–	50	–	4 056
Reinsurance contracts	–	–	–	51	–	–	–	51
Other assets	735	91	197	235	–	164	–	1 422
Total assets	1 025	421	342	6 641	–	214	–	8 643
Liabilities arising from insurance contracts	4	154	50	534	–	–	–	742
Liabilities arising from reinsurance contracts	–	–	–	20	–	–	–	20
Financial liabilities	40	33	–	735	–	–	–	808
Other liabilities	339	158	107	934	–	173	–	1 711
Total liabilities	383	345	157	2 223	–	173	–	3 281
Capital expenditure	160	–	1	9	–	–	–	170

Inter-segment transfers or transactions are entered into under normal commercial terms and conditions that would be available to unrelated third parties.

Segment information (continued)
for the year ended 30 June 2008

(B) SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

Discovery's six business segments operate in three main geographical areas:

	South Africa		United States of America		United Kingdom		Total	
R million	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Insurance premium revenue	**3 099**	2 511	**667**	921	**527**	278	**4 293**	3 710
Fee income from administration business	**2 532**	2 142	**–**	–	**–**	–	**2 532**	2 142
Vitality income	**782**	721	**9**	–	**–**	–	**791**	721
Total assets	**9 686**	7 880	**331**	421	**776**	342	**10 793**	8 643
Capital expenditure	**199**	169	**1**	–	**–**	1	**200**	170

Revenues are allocated based on the country in which the insurance or investment contracts are issued or fee income and investment returns are earned.

Total assets and capital expenditure are allocated based on where the assets are located.

1. ACCOUNTING POLICIES

The accounting policies of Discovery are set out on pages 62 to 77.

2. RISK OVERVIEW

Discovery through its operations is exposed to insurance, financial and operational risks.

Financial risks are risks arising from exposure to financial instruments at reporting date. Financial instruments include all assets and liabilities, but exclude investments in subsidiary and associated companies, property and equipment, intangible assets, deferred income tax, deferred revenue, provisions and assets and liabilities of insurance operations. The financial risks that Discovery is exposed to are market risk, credit risk and liquidity risk. Each is discussed below.

Insurance risks relate to the likelihood that emerging experience will lead to variances on the value placed on assets/liabilities under insurance contracts. Insurance risks are detailed on pages 95 to 109.

2.1 Market 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 cashflows 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.

Various financial instruments are entered into by Discovery in order to match policyholders' liabilities and invest surplus shareholder funds. Discovery has appointed reputable external asset managers to manage these investments. The actuarial committee is responsible for the overall matching and performance of shareholder and policyholder assets. The shareholders assets investment committee ("SAIC") is a sub-committee of the actuarial committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The investment committee is a sub-committee of the Executive committee and meets monthly to make practical decisions regarding Discovery's liquidity and foreign currency exposure.

The table below splits the Group's exposure into the relevant market risk categories and then attributes the exposure to the effective "risk-holders" as follows:

At 30 June 2008:

R million			Attributable to			
Asset type	Risk exposure	Total financial assets	Linked policyholder business(1)**	Other policyholder liabilities(4)**	Ordinary share-holders(2)*	Third party liabilities on consolidated unit trusts(3)**
Equity securities	Equity	**2 055**	**663**	**2**	**1 322**	**68**
Debt securities	Interest rate	**173**	**49**	**–**	**117**	**7**
Money market	Interest rate	**1 034**	**279**	**–**	**688**	**67**
Equity linked notes	Equity	**459**	**412**	**–**	**47**	**–**
Inflation linked notes	Interest rate	**65**	**22**	**–**	**43**	**–**
Derivatives		**35**	**–**	**–**	**35**	**–**
Loans and receivables***	Interest rate	**1 478**	**–**	**–**	**1 478**	**–**
Total financial assets		**5 299**	**1 425**	**2**	**3 730**	**142**
Cash and cash equivalents***	Interest rate	**812**	**16**	**–**	**769**	**27**

2. RISK OVERVIEW *(continued)*

At 30 June 2007:

R million			Attributable to			
Asset type	Risk exposure	Total financial assets	Linked policyholder business(1)**	Other policyholder liabilities(4)**	Ordinary share-holders(2)*	Third party liabilities on consolidated unit trusts(3)**
Equity securities	Equity	2 155	639	–	1 516	–
Debt securities	Interest rate	313	50	–	263	–
Money market	Interest rate	577	108	–	469	–
Equity linked notes	Equity	123	78	–	45	–
Loans and receivables***	Interest rate	888	–	–	888	–
Total financial assets		4 056	875	–	3 181	–
Cash and cash equivalents***	Interest rate	996	–	–	996	–

* *Classified as available-for-sale with the exception of loans and receivables and cash and cash equivalents.*
** *Classified as fair value through profit or loss with the exception of loans and receivables and cash and cash equivalents.*
*** *Loans and receivables are carried at amortised cost and cash and cash equivalents are held at cost which approximates fair value.*

1. Linked policyholder business

Linked business relates to contracts where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. Policyholders carry the full market risk in respect of linked business. In terms of market risk. Discovery shareholders are only exposed to the management fee revenues linked to the aggregate asset values or dividend income on assets underlying the liabilities.

2. Ordinary shareholders

Discovery's shareholders assume the entire market risk related to assets 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.

3. Third party liabilities on consolidated unit trusts

Certain unit trusts in which Discovery owns in excess of 50% of units are classified as subsidiaries and consolidated. The market risks on these assets are assumed by the external unit holders in these unit trusts. Discovery shareholders are only exposed to the management fee revenues linked to the aggregate asset values.

4. Other policyholder liabilities

Liabilities in which the determination of the amount owing is not referenced entirely to specific assets actually held by the company proportionally exposes both shareholders and policyholders to market risks depending on the extent to which the proceeds from the assets are not sufficient to fund the obligations arising from insurance and investment contracts. Discovery faces market risk under the following products:

- *Guaranteed investment*
  Discovery Invest offers guaranteed annuity products providing a guaranteed income in retirement. There is thus a risk that the return on the underlying assets is lower than required to provide the guaranteed income. This risk is managed by adjusting the terms offered to new business weekly based on the prevailing interest rates in the market. The underlying assets are then managed by specialist asset managers to match the asset and liability position as closely as possible.

- *Other investment*
  Discovery Invest offers unique additional benefits that could potentially enhance the return on the underlying linked policyholder liabilities. For example, the Investment Integrator potentially enhances the return on the Right Choice Fund on endowment plans based on the size of the Life Plan premium. There is a risk that the average Life Plan premium size is higher than expected leading to a higher than expected enhancement of the investment return. This risk is controlled by monitoring the actual average eligible Life Plan premiums and monitoring the potential exposure over time.

5. Off balance sheet unit trusts

As at 30 June 2008, through the linked investment services platform, Discovery manages a number of investments in existing unit trusts totaling R296 million. Discovery shareholders are only exposed to the management fee revenues linked to the aggregate asset values of these investments.

2.1.1 Equity risk

Equity risk is the impact of changes in equity prices and dividend income on future cashflows and hence the value of a financial instrument.

Discovery has appointed RMB Asset Management (Pty) Ltd to manage its investments. As discussed under market risk, the performance of the asset managers is monitored by the SAIC against pre-determined benchmarks.

2.1.2 Interest rate risk applicable to financial instruments

Interest rate risk is the impact of changes in market interest rates on future cashflows and hence the value of a financial instrument.

Interest rate risk is managed by the investment committee.

The tables below give additional detail on specific interest rate risk applicable to financial assets. As the amounts are insignificant, interest rate details contained in investments in unconsolidated on balance sheet unit trusts are not provided.

R million	Carrying value	Floating interest rate risk	Fixed interest rate risk	Investments in unconsolidated on balance sheet unit trusts	Non-interest bearing
2008					
Held at fair value through profit or loss					
– Debt securities	**56**	**14**	**27**	**15**	**–**
– Money market	**346**	**206**	**108**	**32**	**–**
– Inflation linked	**22**	**–**	**22**	**–**	**–**
Available-for-sale					
– Debt securities(1)	**117**	**(74)**	**191**	**–**	**–**
– Money market	**688**	**585**	**103**	**–**	**–**
– Inflation linked	**43**	**8**	**35**	**–**	**–**
Loans and receivables	**1 478**	**157**	**–**	**–**	**1 321**
Cash and cash equivalents	**812**	**812**	**–**	**–**	**–**
2007					
Held at fair value through profit or loss					
– Debt securities	50	12	38	–	–
– Money market	108	108	–	–	–
Available-for-sale					
– Debt securities	263	17	246	–	–
– Money market	469	275	194	–	–
Loans and receivables	888	–	–	–	888
Cash and cash equivalents	996	996	–	–	–

(1) Negative floating rate debt securities represent short positions in floating rate debt securities where a floating rate of interest has been swapped for a fixed rate of interest in managing the portfolio.

2. RISK OVERVIEW *(continued)*

2.1.2 Interest rate risk applicable to financial instruments *(continued)*

The maturity profile of the financial instrument assets is as follows:

R million	Total	<1 year	1 to 5 years	5 to 10 years	>10 years	Open ended	Investments in unconsolidated on balance sheet unit trusts
2008							
Held at fair value through profit or loss							
– Debt securities	**56**	**1**	**8**	**10**	**12**	**10**	**15**
– Money market	**346**	**276**	**27**	**–**	**–**	**11**	**32**
– Inflation linked	**22**	**–**	**22**	**–**	**–**	**–**	**–**
Available-for-sale							
– Debt securities	**117**	**19**	**27**	**36**	**17**	**18**	**–**
– Money market	**688**	**417**	**186**	**–**	**–**	**85**	**–**
– Inflation linked	**43**	**–**	**43**	**–**	**–**	**–**	**–**
Loans and receivables	**1 478**	**1 321**	**157**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**812**	**812**	**–**	**–**	**–**	**–**	**–**
2007							
Held at fair value through profit or loss							
– Debt securities	50	–	18	6	14	12	–
– Money market	108	37	67	–	–	4	–
Available-for-sale							
– Debt securities	263	96	94	5	55	13	–
– Money market	469	378	46	30	10	5	–
Loans and receivables	888	888	–	–	–	–	–
Cash and cash equivalents	996	996	–	–	–	–	–

2.1.3 Currency risk

Currency risk is the impact of changes in foreign exchange rates on future cashflows and hence the value of a financial instrument.

Currency risk is managed monthly by the investment committee.

Discovery has offshore assets in its policyholders' and 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	Rand	USD	GBP	Euro	Japan	Other	Total
2008							
Held at fair value through profit or loss							
– Equities	**642**	**39**	**20**	**16**	**7**	**9**	**733**
– Equity linked notes	**403**	**4**	**1**	**2**	**1**	**1**	**412**
– Debt securities	**46**	**1**	**3**	**3**	**1**	**2**	**56**
– Money market	**335**	**5**	**3**	**1**	**1**	**1**	**346**
– Inflation linked	**22**	**–**	**–**	**–**	**–**	**–**	**22**
Available-for-sale							
– Equities	**1 196**	**38**	**36**	**19**	**15**	**18**	**1 322**
– Equity linked notes	**23**	**11**	**4**	**6**	**2**	**1**	**47**
– Debt securities	**87**	**15**	**6**	**3**	**3**	**3**	**117**
– Money market	**518**	**88**	**7**	**69**	**3**	**3**	**688**
– Inflation linked	**43**	**–**	**–**	**–**	**–**	**–**	**43**
Loans and receivables	**976**	**130**	**372**	**–**	**–**	**–**	**1 478**
Cash and cash equivalents	**409**	**95**	**308**	**–**	**–**	**–**	**812**
2007							
Held at fair value through profit or loss							
– Equities	561	29	16	25	–	8	639
– Equity linked notes	78	–	–	–	–	–	78
– Debt securities	38	3	1	5	–	3	50
– Money market	104	4	–	–	–	–	108
Available-for-sale							
– Equities	1 348	63	18	78	–	9	1 516
– Equity linked notes	45	–	–	–	–	–	45
– Debt securities	117	135	1	6	–	4	263
– Money market	409	60	–	–	–	–	469
Loans and receivables	601	142	145	–	–	–	888
Cash and cash equivalents	742	79	175	–	–	–	996

The exchange rates at year end are detailed in the table below (quoted as Rand per foreign currency):

	USD	GBP	Euro	Japan
30 June 2008	**7.82**	**15.60**	**12.35**	**0.074**
30 June 2007	7.07	14.17	9.55	0.054

2. RISK OVERVIEW *(continued)*

2.1.3.1 Forward exchange contracts ("FECs")

In each case in the table detailed below, Discovery has agreed to sell GBP to a third party bank. The fair value of these contracts has been included in financial liabilities. Discovery has entered into these agreements to hedge future administration fee income receivable from PruHealth. Gains and losses on the FECs are included in the income statement to match gains or losses on the obligation to PruHealth.

Outstanding contracts at 30 June 2008 were:

	2008				2007			
Contract	**GBP**	**ZAR**	**Rate**	**Maturity dates**	GBP	ZAR	Rate	Maturity dates
1	**(898 442)**	**13 000 000**	**14.47**	**2008/07/15**	(479 659)	7 000 000	14.59	2007/07/16
2	**(618 561)**	**9 000 000**	**14.55**	**2008/08/15**	(341 616)	5 000 000	14.64	2007/08/15
3	**(615 124)**	**9 000 000**	**14.63**	**2008/09/15**	(340 521)	5 000 000	14.68	2007/09/17
4	**(612 975)**	**9 000 000**	**14.68**	**2008/10/15**	(339 635)	5 000 000	14.72	2007/10/15
5	**(611 691)**	**9 000 000**	**14.71**	**2008/11/17**	(338 749)	5 000 000	14.76	2007/11/15
6	**(608 437)**	**9 000 000**	**14.79**	**2008/12/15**	(337 781)	5 000 000	14.80	2007/12/18
7	**(1 008 675)**	**15 000 000**	**14.87**	**2009/01/15**	(606 424)	9 000 000	14.84	2008/01/15

In each case, Discovery has agreed to sell ZAR to PruHealth and to sell GBP to a third party bank.

2.1.4 Derivative financial instruments

Discovery's asset managers use derivative instruments as mandated to limit or reduce risk.

The majority of derivatives are exchange traded (SAFEX or Yield-X). Exchange traded derivatives are settled daily reducing exposures (and hence credit risk) to zero at the end of each day. The market values of these derivatives at 30 June 2008 and 2007 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. No single case netted a positive value and therefore there is no exposure at 30 June 2008 or 2007.

Discovery has purchased cash-settled equity options from a major F1+ rated South African bank to hedge a portion of its exposure to changes in the Discovery share price under its cash-settled share incentive scheme. The details of the phantom share scheme are described in note 32.

The Group entered into transactions to hedge approximately 66.6% of its exposure in the phantom share scheme related to changes in the Discovery share price. The hedges were designed to be highly effective, where the terms of the hedge substantially match that of the phantom share scheme on a per instrument basis. Combinations of call and put options were designated on a unit for unit basis to substantially match the terms of the phantom share and call option units.

2.1.4 Derivative financial instruments *(continued)*

The cash-settled call options and cash-settled put options held by the Group at 30 June 2008 were:

Date	Strike price	Number of call options	Number of put options
30 September 2008	21.50	1 027 614	–
30 September 2008	22.30	1 116 731	–
30 September 2008	21.50	–	111 359
30 September 2008	22.58	111 359	–
30 September 2008	22.30	–	190 546
30 September 2008	23.42	190 546	–
30 September 2009	21.50	1 001 264	–
30 September 2009	22.30	1 117 487	–
30 September 2009	26.40	527 268	–
30 September 2009	21.50	–	105 173
30 September 2009	22.58	105 173	–
30 September 2009	22.30	–	179 961
30 September 2009	23.42	179 961	–
30 September 2009	26.40	–	214 359
30 September 2009	27.72	214 359	–
30 September 2010	21.50	–	1 027 292
30 September 2010	22.58	1 027 292	–
30 September 2010	22.30	–	1 171 144
30 September 2010	23.42	1 171 144	–
30 September 2010	26.40	–	602 696
30 September 2010	27.72	602 696	–
30 September 2011	22.30	–	1 096 026
30 September 2011	23.42	1 096 026	–
30 September 2011	26.40	–	908 306
30 September 2011	27.72	908 306	–
30 September 2012	26.40	–	516 956
30 September 2012	27.72	516 956	–
		10 914 182	**6 123 818**

The fair value of the call and put options are repriced at each reporting date and were calculated on a Black-Scholes model using the same assumptions as tabled in note 32.

2.2 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:

1. Reinsurance assets comprising receivables raised for expected recoveries on projected claims (Discovery's liability as primary insurer is not discharged) and amounts due from reinsurers in respect of claims already paid. This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further it is expected that there will be little build-up of actuarial liability on the reinsurers' side. The risk thus mainly arises following a period of higher than expected claims. Credit ratings of reinsurers are taken into account in reinsurance placement decisions. Credit exposure to reinsurers is also limited through the use of several reinsurers. Reinsurance is placed with reputable international companies directly or through their national offices. The international companies used by Discovery are rated A or higher by AM Best.
2. 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 in note 2.2.1.

2. RISK OVERVIEW *(continued)*

2.2 Credit Risk *(continued)*

3. Certain accounts within the balance sheet category of loans and receivables. The management of this risk is discussed in detail under note 2.2.2.
4. 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 in note 2.2.1.
5. 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.

2.2.1 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. As the amounts are insignificant, credit ratings contained in investments in unconsolidated on balance sheet unit trusts are not provided.

	Long term ratings				Short term ratings				
R million	AAA	AA+ AA AA-	A+ A A-	Govt	F1	F1+	Not rated	Investments in unconsoli-dated on balance sheet unit trusts	Total
2008									
Held at fair value through profit or loss									
– Debt securities	**19**	**–**	**1**	**15**	**–**	**3**	**3**	**15**	**56**
– Money market	**–**	**16**	**3**	**–**	**–**	**274**	**21**	**32**	**346**
– Inflation linked	**11**	**11**	**–**	**–**	**–**	**–**	**–**	**–**	**22**
– Equity linked notes	**–**	**412**	**–**	**–**	**–**	**–**	**–**	**–**	**412**
Available-for-sale									
– Debt securities	**116**	**46**	**8**	**38**	**–**	**(97)**	**6**	**–**	**117**
– Money market	**202**	**185**	**15**	**5**	**11**	**263**	**7**	**–**	**688**
– Inflation linked	**15**	**28**	**–**	**–**	**–**	**–**	**–**	**–**	**43**
– Equity linked notes	**–**	**47**	**–**	**–**	**–**	**–**	**–**	**–**	**47**
Cash and cash equivalents	**–**	**–**	**–**	**–**	**–**	**812**	**–**	**–**	**812**
2007									
Held at fair value through profit or loss									
– Debt securities	13	7	1	27	–	–	2	–	50
– Money market	–	4	–	–	–	89	15	–	108
Available-for-sale									
– Debt securities	147	55	23	36	–	–	2	–	263
– Money market	106	4	–	–	4	336	19	–	469
Cash and cash equivalents	–	–	–	–	–	996	–	–	996

The credit ratings shown are the most conservative of Moody's, Fitch and S&P and have been provided in a Fitch format.

2.2.2 Credit risk relating to loans and receivables

Discovery's loans and receivables including insurance receivables comprise:

R million	2008	2007
Receivables arising from insurance & reinsurance contracts:		
Premium debtors	**173**	185
Less provision for impairment of premium debtors	**(43)**	(35)
Reinsurance debtors *(refer 2.2 (1))*	**492**	225
Other loans and receivables		
Discovery Health Medical Scheme	**248**	230
Administered scheme debtors	**15**	15
Prepayments	**67**	42
Agents and brokers	**69**	4
Joint venture loans	**31**	22
Prudential Assurance Company	**161**	112
Loans to share trust participants	**157**	–
Other debtors	**145**	128
Less provision for impairment of other loans and receivables	**(37)**	(40)
Total	**1 478**	888

Included in premium debtors is an amount of R109 million (2007: R121 million) due to Destiny from alliance partners. The alliance partners have been rated by A.M. Best as A- or better.

The balance of premium debtors are not rated by Discovery as exposure to any single customer is insignificant. The premium debtors comprise amounts receivable from individuals and corporates. In addition, Discovery suspends benefits when contributions are not received for 3 months. Premium debtors that are past due are handled by a specialist area in business. Where amounts remain uncollected for more than 6 months, the debtors are then handed to specialist debt collection agencies.

The Discovery Health Medical Scheme ("DHMS") has been rated AA by Global Credit Ratings. The administered schemes have not been rated. Payments by DHMS and the other administration schemes are managed by Discovery and are paid by the 7th of the following month.

Agents and brokers are subject to a comprehensive relationship management program including credit assessment. Agents and brokers are not rated by Discovery as exposure to any single intermediary is insignificant. The widespread nature of the individual amounts combined with this close management relationship reduces credit risk. Most commission claw-backs are off set against future payments and hence the risk of outstanding commission is minimal.

Joint venture loans comprise the receivables from Discovery's joint venture companies that are not eliminated on proportionate consolidation. These joint ventures have not been rated.

The Prudential Assurance Company has been rated AA+ by Fitch.

Discovery ages and pursues unpaid accounts on a monthly basis. The ageing of the components of loans and receivables at year end was:

R million	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	**1 442**	**(9)**	881	(10)
30 days	**20**	**(6)**	11	(4)
60 days	**9**	**(3)**	7	(3)
90 days	**7**	**(4)**	3	(2)
120 days	**9**	**(4)**	3	(3)
150 days	**9**	**(8)**	8	(6)
>150 days	**62**	**(46)**	50	(47)
Total	**1 558**	**(80)**	963	(75)

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.

2. RISK OVERVIEW *(continued)*

2.2.2 Credit risk relating to loans and receivables *(continued)*

The movement in the provision for impairment during the year was as follows:

	R million
Balance at 1 July 2006	(78)
Decrease in provision	(5)
Amounts utilised during the period	8
Balance at 30 June 2007	(75)
Balance at 1 July 2007	**(75)**
Decrease in provision	**(12)**
Amounts utilised during the period	**7**
Balance at 30 June 2008	**(80)**

2.3 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).

2.3.1 Liquidity profile of assets

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	2008 %	2008 R million	2007 %	2007 R million
Liquid	**94**	**5 762**	97	4 918
Medium	**1**	**64**	–	–
Illiquid	**5**	**285**	3	134

Liquid assets are considered to be realisible within one month. Listed equities are grouped as liquid assets.
Medium assets are considered to be realisable within 6 months.
Illiquid assets are considered to be realisable in excess of 6 months.

2.3.2 Maturity profiles of financial instrument liabilities

The table below summarises the maturity profile of Discovery's financial liabilities based on the remaining undiscounted contractual obligations.

Contractual cash flows

R million	<1 year	1 to 5 years	5 to 10 years	>10 years	Total
2008					
Investment contracts at fair value through profit or loss	**153**	**653**	**305**	**119**	**1 230**
Borrowings at amortised cost	**5**	**32**	**–**	**–**	**37**
Trade and other payables	**1 035**	**81**	**–**	**–**	**1 116**
2007					
Investment contracts at fair value through profit or loss	1	675	24	35	735
Borrowings at amortised cost	36	37	–	–	73
Trade and other payables	682	51	–	–	733

2.3.4 Sensitivity analysis of market risk.

Shareholders are exposed to the fluctuation in the market values of shareholder funds and to the impact of market value fluctuations on management fees linked to assets backing policyholder liabilities. The Discovery Invest business was launched during the year under review and the management fees earned from this business for the year ended 30 June 2008 totalled R24 million. The impact of market value fluctuations is not material on these fees.

The impact on ordinary shareholders' equity and attributable profit after taxation was calculated using the following assumptions:

- a 10% decrease in the ALSI;
- a 10% appreciation in the USD; and
- a 1% increase in interest rates.

The assumptions are considered reasonably possible in the current economic environment. The impact of an equal but opposite change in these assumptions would be similar to the above. As the shareholder assets are classified as available-for-sale, changes to market values are taken directly to equity and do not impact the profit after tax.

Each sensitivity applied has been calculated in isolation and no inter-relationship trends between variables have been taken into account. This has the effect of overstating the impacts provided as past experience does indicate that these variables tend not to move in isolation.

The table below summarises the impact of the change in market risk variables as outlined above:

		Impact on ordinary shareholders' equity	
Assumption description	Change in variable %	**2008 R million**	2007 R million
Interest rate yield curve	+1%	**(11)**	(2)
USD	+10%	**(30)**	16
ALSI	–10%	**(113)**	(126)

The impact above does not take into account any consequential change to the assumptions underlying the valuation of assets under insurance contracts (the sensitivity analysis of which is provided on page 104).

3. INSURANCE RISKS

3.1 Discovery Life

Product descriptions

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

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

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. The plan covers:

- life cover benefits;
- disability benefits;
- severe illness benefits; and
- income continuation benefits.

The Life Fund forms the financial foundation of the Life Plan. The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary. The Life Fund can also be linked to global investment markets and a selection of currencies via the Global Linkage Benefit to provide additional protection in real terms and in foreign currencies. The Cover Integrator allows for an increase in the Life Fund at a significantly reduced premium and further rewards policyholders for managing their health by engaging in Vitality.

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.

3. INSURANCE RISKS *(continued)*

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 2008 there were 198 000 Life Plans with an annualised premium income of R2 426 million (2007:174 000 Life Plans with an annualised premium income of R2 221 million). The annualised premium income is calculated by multiplying the monthly in-force premium at 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. The Health Plan Protector can be added to the Life Plan or can be bought on a stand alone basis. The Health Plan Protector provides cover up to age 65, however premiums are not guaranteed.

At 30 June 2008 there were 92 000 Health Plan Protector policies with an annualised premium income of R226 million (2007: 81 000 Health Plan Protector policies with an annualised premium income of R185 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 2008 there were 29 200 Discovery Retirement Optimiser policies of which 27 900 policies are linked to the Life Plan. These policies have an annualised premium income of R379 million (At 30 June 2007 there were 19 579 Discovery Retirement Optimiser policies, 18 800 of these policies were linked to the Life Plan, with an annualised premium income of R237 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 2008 there were 24 500 DiscoveryCard Protector policies with an annualised premium income of R18 million (2007: 17 000 policies with an annualised premium income of R11 million).

Global Education Protector

The Global Education Protector funds education costs for children in the event of death, disability or severe illness of the insured life. Cover is provided to the earlier of the insured life reaching age 65 or the child reaching age 24. This benefit can be purchased on a standalone basis.

At 30 June 2008 there were 2 300 standalone Global Education Protector policies with an annualised premium income of R5 million.

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a group basis. Life Cover, Severe Illness, Disability and Income Continuation Benefits are offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2008 there were 190 000 lives covered under group policies with an annualised premium income of R352 million (2007: 141 000 lives covered under group policies with an annualised premium income of R319 million).

Discovery Invest

Discovery Invest offers investors access to a comprehensive and flexible range of investment solutions which can be tailored to the needs of every investor.

A range of investment wrappers are provided to ensure flexibility and to optimise the investments according to the investment objectives and time horizon of the investor. A wrapper is the legal structure that allows you to make underlying investments with different tax and other legal implications.

The following wrappers are available:

- *Endowment:* A medium term investment vehicle that provides tax efficiencies for an investor with a five to ten year time horizon.
- *Flexible investment:* A flexible investment vehicle that allows tailor made investments solutions whilst providing immediate access to funds.
- *Retirement plan:* A long-term investment vehicle providing a tax efficient structure for saving towards retirement.
- *Preserver plans:* An investment vehicle that helps to ensure retirement benefits continue to grow on a tax efficient basis once a policyholder has left the retirement plan of an employer.
- *Retirement income plan:* Fixed and linked annuities are provided giving flexibility to meet retirement needs.

A comprehensive range of investment fund choices are provided including unique Discovery Invest Funds. The funds include:

- *Discovery Invest funds:* Includes a comprehensive range of Discovery Invest's single and multi-manager funds across a range of asset classes.
- *Dynamically protected funds:* Unique Discovery Invest Funds that are designed to protect investors against the major risks associated with investment choice, for example underperformance by fund, asset class and geographic region.
- *Special purpose funds:* These funds are designed to provide solutions to investors looking to save for specific goals, such as retirement. These funds provide alternative and innovative management expertise.
- *External funds:* Discovery Invest provides a broad range of externally managed funds.

Integrating Invest and Discovery Life products reduces the cost of investment and enhances benefits available under the Invest plans.

- *Investment Integrator:* Uses the tax efficiencies created by the Discovery Life Plan and health improvements from Vitality 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.

At 30 June 2008 there were 4 835 Invest plans with an annualised premium equivalent of R206 million. The annualised premium equivalent includes single premiums at 10% of the single premium.

Insurance risks

Market and mismatching risk

Mismatching risk is the risk that movements in assets and liabilities are out of line given changes in market conditions as defined in note 2.1.

- *Insurance contracts*

  The insurance related cash outflows (e.g. benefit payments, administrations expenses, etc.) have been matched with future cash inflows (predominantly future premiums). This can clearly be seen by considering the expected future net cash flows arising from insurance contracts:

R million	Year 1	Years 2 to 5	Years 5 to 10	Years 11 to 20	Years 21+
2008					
Cash Flow	**908**	**2 611**	**2 325**	**1 825**	**(5 454)**
2007					
Cash Flow	745	1 924	1 526	1 013	(3 262)

3. INSURANCE RISKS *(continued)*

The value of assets under insurance contracts of R3 920 million (2007: R3 114 million) is calculated by discounting the expected future cash flows shown above. The effect of discounting is R2 075 million (2007: R1 301 million). The cash flows exclude current policyholder liabilities of R370 million (2007: R133 million). The discount rate is set with reference to the prevailing risk free gilt yield. The value of assets under insurance contracts is subject to interest rate risk.

There is thus a risk that a change in the risk free gilt yield could cause a change in the value of the assets under insurance contracts.

The non-linked and non-market related insurance liabilities held 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.

- *Investment contracts*

  Discovery Life has written business with linked benefits under the Discovery Retirement Optimiser product. Business written from Discovery Invest includes linked benefits and guaranteed benefits. Refer to note 2.1 for a discussion of market risk exposure arising on investment contracts.

  The expected future net cashflows arising from investment business (excluding insurance business) is as follows:

R million	Year 1	Years 2 to 5	Years 5 to 10	Years 11 to 20	Years 21+
Cash Flow	12	42	17	6	–

  These cashflows do not represent a market and mismatching risk. They simply represent a run-off of the deferred acquisition cost (DAC).

- *Embedded derivatives*

  Discovery Life does not currently have significant embedded derivatives that do not meet the definition of insurance contracts.

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 over time since the cash flows under the policy are maintained in real terms.

These automatic increases are contractual, however, if a policyholder is no longer in a position to meet the premium increases, they may elect to change their policy to a plan with lower premium and benefit increases. In practice it has been found that most of the policyholders continue with their initial funding plans. However, for valuation purposes it has been assumed that all policyholders change to plans with minimum premium increases without changing the cover levels as at the valuation date. This is the worst case scenario and thus acts as a margin.

Lapse and surrender risk

Policyholders have the option to discontinue or reduce contributions at any time.

There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped. On Invest plans, the surrender value may also exceed the policy value, net of expenses, at early durations.

On Life Plans there is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy even where reserves are positive.

There is a further risk that Life Plan withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings under Life Plans are dependant on the number of policies remaining in future years and thus future earnings are dependant on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the higher the increases, the higher the withdrawal risk to future earnings.

Future earnings under Investment plans are dependant on the value of assets under management and thus future earnings are dependant on the withdrawal and surrender rate.

The lapse risk is managed as follows:

- *Product design*
  Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example, Vitality provides unique rewards and benefits to members which has proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

  No surrender benefit is offered on risk benefits and thus the loss on withdrawal on Life Plans is reduced.

- *Commission Clawback*
  Discovery Life predominantly distributes via independent brokers and tied agents.

  Commissions are clawed back from intermediaries where a policy lapses within the first two years of inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% over the two year period.

- *Target market*
  Discovery operates predominantly in the affluent end of the insurance market. In general the affluent market is less impacted by changes in the economic environment than the lower income market.

- *Client relationships*
  All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policies are conserved.

- *Reinsurance*
  Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses. The reinsurance protects Discovery Life against the loss of assets under insurance contracts in the event that the aggregate lapse rate exceeds a predefined level.

- *Experience monitoring*
  Lapse experience is monitored on a monthly basis and the data is analysed to establish possible trends for which management action can be taken.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected on Life Plans. This could arise as a result of the number of claims or the value of claims being higher than expected.

On guaranteed annuities there is a risk that mortality experience is lower than expected and thus that income payments continue for longer than expected. The guaranteed annuity book of Discovery Life was insignificant at 30 June 2008. Discovery Life does not offer any deferred annuities where the annuity rate at a future point in time is guaranteed for new entrants.

Invest plans are not directly impacted by mortality and morbidity risks. The Annuity Integrator's Ill-health booster boosts retirement income on severe illness. The Annuity Integrator's Longevity booster boosts retirement income every 10 years. The costs of the benefits were allowed for in the product design and pricing of the benefits.

Selection 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.

3. INSURANCE RISKS *(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 ten years and increased by a maximum of 25%. The guarantee provided to the policyholder will however be strengthened based on policyholder's actual annual historic Vitality status.

Discovery Life predominantly operates in the high end of the insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV / AIDS is considered and allowed for during the product development and pricing.

Group business can be reviewed at least once every two years. AIDS risk is specifically allowed for in the pricing of individual groups.

Overall, Discovery Life has experienced better than estimated 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. Discovery Life can dynamically adjust certain premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.

  Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.

  Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance*

  Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.

  In addition, reinsurers provide specialist advice when designing new products.

  Discovery Life utilises surplus reinsurance to reinsure the proportion of each risk in excess of R3 million as at the policy inception. Discovery Life is thus protected against large individual claims.

  In addition, catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual and group business are covered by catastrophe reinsurance.

- *Experience monitoring*

  Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis.

Expenses

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies or a reduction in the assets under management. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model doesn't accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

The original actuarial model was tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any 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 ensure 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 Life Offices Association, an industry wide body that engages in discussions with policymakers and regulators.

Although Discovery endeavors to design insurance and financial solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all insurance products issued by Discovery Life have to be signed off by the independent Statutory Actuary.

In addition, Discovery Life does not have legacy retirement business that is affected by the recent rulings made by the Pension Fund Adjudicator.

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

For currency risk on financial assets please refer to note 2.1.3.

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; and
- operational risk on investment business.

3. INSURANCE RISKS *(continued)*

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 a minimum capital cover of two times is maintained.

No management action was allowed for to offset adverse conditions.

At 30 June 2008 the Statutory Capital Adequacy Requirement was R174 million and was covered 7 times (2007: the Statutory Capital Adequacy Requirement was R145 million and was covered 10.5 times).

Liquidity risk

Liquidity risk is defined in note 2.3. 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 liabilities are mostly long term and the main liquidity requirement is to fund acquisition expenses on new business. As discussed in 2.3.1, Discovery invests primarily in liquid financial assets. The liquidity risk on the existing portfolio is thus relatively small.

Large individual claims in excess of R3 million are reinsured providing stability in claims experience and further reducing the liquidity risk.

The net of tax and net of reinsurance undiscounted expected cash inflows under in-force insurance and investment contracts as at 30 June were as follows:

R million	Year 1	Years 2 to 5	Years 5 to 10	Years 11 to 20	Years 21+
2008					
Cash Flow	**999**	**2 976**	**4 262**	**12 130**	**79 521**
2007					
Cash Flow	630	2 354	3 141	6 740	22 666

Note that these cash flows differ from those disclosed on page 97, since these are based on best estimate cash flows not taking into account the margins included within the liability calculations. No allowance has been made for new business and related expenses.

Policy wording/legal risks

There is a risk that Discovery could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards Discovery Life. Discovery Life may thus not be able to apply management policies to reduce risk.

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the chief medical officer and legal advice is obtained where necessary.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.

Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management review all product offerings to minimise the reputational risk. All products are approved by the statutory actuary prior to launch.

Reputational risk may also arise if Invest Plans experience worse investment returns than competitors. This may lead to lower future new business and higher surrenders. This risk is mitigated through the use of reputable experienced fund managers and unique, innovative products covering specific risks.

Concentration risk

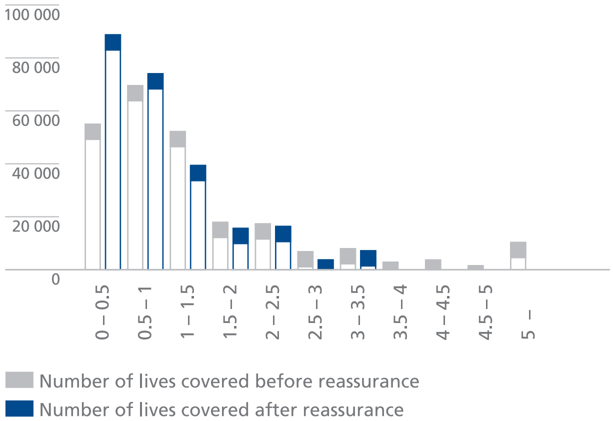
- *Claims experience risk*
  There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location.

  Discovery's exposure to group business is however small at this stage and this risk is mitigated through catastrophe reinsurance.

  Discovery Life maintains a well diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash. The Catastrophe reinsurance covers single event disasters for up to R100 million where the net of reinsurance impact is greater than R10 million.

  Reinsurance removes the exposure to large individual claims, as demonstrated by the table below:

Impact of reassurance on exposure to large claims
(Sum assured Rm)



The distribution of policies by sum assured is thus shifted towards lower sum assured.

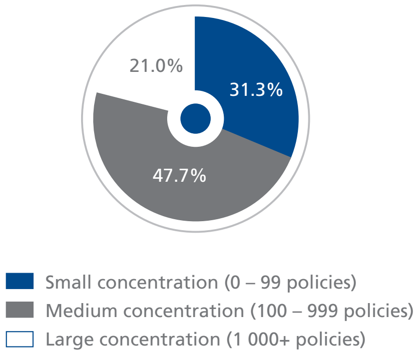
- *Withdrawal concentration risk*
  There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

  Discovery Life has a well diversified book of business by source of new business and spread across more than 7 000 (2007: 6 500) brokers and agents.

  The maximum exposure of Discovery Life to a single intermediary is smaller than 1% and to a group of intermediaries is 5.2% (2007: 6%) in number of policies.

  The distribution of API by concentration to an intermediary group is given in the graph below. A large concentration is defined as an intermediary group that has written more than 1 000 Discovery Life policies. A small concentration is defined as an intermediary group that has written less than 100 policies.

API concentration by intermediary



3. INSURANCE RISKS *(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.

Two sets of sensitivities were considered. The first set shown under insurance risks considers a change in the long term assumption used in the projection model. The second set shown under market fluctuation at valuation date only considers the impact of a possible change in the market condition on the value of the non-linked assets at valuation date and thus no changes are made to long term projection assumptions.

The following sensitivities are provided under insurance risk:

Lapses: The lapse, surrender and withdrawal rates are increased or decreased across all policies and investment plans.
Renewal expenses: Renewal expense per policy increased or decreased across all policies and investment plans.
Mortality and morbidity: The mortality rate, disability rate and severe illness rates are increased and decreased across all policies and investment plans.
Long term investment return and inflation: A parallel shift is assumed in the yield curve. The investment return, inflation, renewal expense inflation and inflation linked premium increases are adjusted consistently.

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2008 assumptions	**3 920**	
Lapses +10% (e.g. from x% to 1.1x%)	**3 743**	**4.5**
Lapses –10% (e.g. from x% to 0.9x%)	**4 107**	**(4.8)**
Investment return and inflation –1% (e.g. from 5% to 4%)	**4 063**	**(3.6)**
Investment return and inflation +1% (e.g. from 5% to 6%)	**3 784**	**3.5**
Expense assumption +10%	**3 830**	**2.3**
Expense assumption –10%	**4 010**	**(2.3)**
Mortality and Morbidity +10%	**3 188**	**18.7**
Mortality and Morbidity –10%	**4 710**	**(20.1)**

	Assets under insurance contracts R million	Change from base assumption %
Base: June 2007 assumptions	3 114	
Lapses +10% (e.g. from x% to 1.1x%)	2 976	4.5
Lapses –10% (e.g. from x% to 0.9x%)	3 258	(4.7)
Investment return and inflation –1% (e.g. from 5% to 4%)	3 191	(2.5)
Investment return and inflation +1% (e.g. from 5% to 6%)	3 035	2.6
Expense assumption +10%	3 052	2.1
Expense assumption –10%	3 177	(2.1)
Mortality and Morbidity +10%	2 641	15.6
Mortality and Morbidity –10%	3 618	(16.6)

For liabilities arising from insurance contracts, which consist mainly of outstanding reported claims and IBNR claims, any deviation from the best estimate liabilities would have a direct impact on profit.

3.2 Destiny Health

Destiny Health historically wrote contracts providing health insurance coverage to individual and small employer groups in select markets within the United States of America.

The Destiny Health business was written in nine jurisdictions (Illinois, Wisconsin, Massachusetts, Washington DC, Virginia, Maryland, Texas, Colorado and Michigan) and on the paper of five insurance carriers (Destiny Health Insurance Company, Guardian Life Insurance Company, Clarendon National Insurance Company, Stonebridge Life Insurance Company and Tufts Insurance Company). Apart from the Destiny Health Insurance Company, all other paper is rated A– and higher by A.M. Best Company. Different reinsurance and risk sharing agreements govern the retained risk to Destiny Health in each of these markets and on each of the licenses.

Destiny Health has been winding down its health insurance exposure since early 2008. The wind-down process is comprehensive and required partner and regulatory approval and assistance in all nine jurisdictions. Transfer solutions are in place for all business segments and aim to fully exhaust health insurance risk exposure by the end of 2009. Most of the business is being sold to Trustmark Life Insurance Company, an Illinois based insurance carrier. Active business is still appropriately managed as outlined below.

Product description

The Destiny Health Plan comprises a medical plan providing medical coverage with a number of benefit options.

The plan typically covers the following health insurance benefits:

- Hospital benefits covering a range of inpatient hospital care and related services.
- Surgery benefits apply for outpatient surgery that is medically necessary where the surgery cannot be performed in a physician's office.
- Day-to-day benefits relate to physician office visits and in-office treatment.

Optional coverage is provided for:

- Chronic medication, which covers prescribed medications, including insulin, required for the treatment of certain chronic illnesses.
- Total medication, which covers all prescribed medications.
- Preventive medications, covering prescription drugs, as defined by the plan, for the preventive treatment of various health conditions.
- Preventative care, covering costs for services such as childhood immunizations and mammograms.
- Hospital and surgery benefit, providing coverage for hospital and surgery services subject to a separate deductible.

Insurance risks

Underwriting experience risk

Destiny is exposed to uncertainty surrounding the timing and severity of claims under its contracts of insurance. Risk premium rates are estimated using statistical techniques at a level reflective of expected annual claims cost per member, on a pooled basis. Insurance events are, by nature, random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

Destiny Health's risk exposure is reduced through reinsurance:

- Reinsurance coverage was significantly strengthened at the end of 2007 and now comprises specific stop loss coverage, covering all member claim accumulations in excess of US$150 000 (previously US$300 000) through Lloyds of London.
- Quota share coverage of 50% on approximately 50% of in-force business in 2008 (60% of in-force business in 2007).

These risks are further managed through:

- *Underwriting to screen risk and rate appropriately*
  New business ceased in March 2008 and underwriting is primarily focused on management of renewal business, where still applicable, and mitigating risk on the existing block of business through strict enforcement and analysis of eligibility, non-disclosure, minimum participation requirements and facilitating the transfer and wind-down of the business.

- *Pricing*
  Premiums are annually renewable and policies are cancelable upon non-payment (all size groups), non-disclosure (groups with 51 or more employees) and fraud (all size groups). Some States require small group rates to be within a particular band, i.e. the highest rate cannot exceed the lower by more than a mandated percentage. The distribution of business quoted and sold is monitored on a weekly basis and the aggregate of business sold at the highest rates was aimed to be fewer than 15%. Pricing is still monitored on an ongoing basis and changes to pricing occur monthly. Significant pricing increases have been implemented following the closure to new business and change in nature of the block. Pricing information sources include internal analysis, provider data, industry pricing tables, and partner data. Destiny Health's pricing is also reviewed from time-to-time by external consultants.

3. INSURANCE RISKS *(continued)*

- *Managing health*

  Destiny Health uses specialist external consultants for the following services:

  – pharmacy benefit management;
  – in-patient and outpatient utilisation management, case management, disease management and maternity management;
  – mental health benefit and case management; and
  – diagnostic test review.

  The disease management program uses risk screening and predictive modelling to identify members for outreach.

  Destiny Health's wellness program, Vitality, plays an integral part in promoting health awareness, incentivising healthy behavior and providing access to wellness programs and facilities.

- *Claims management*

  Claims payment patterns are short tailed by nature, and 90% of claims are typically settled within three months from dates of service. Destiny Health does not have exposure to latent claims, as all original claims are required to be submitted within 12 months from date of service. Average receipt of claims differs by territory, and currently runs at 45 days for all markets combined.

  Provider network contracts provide some claim cost relief. Groups, and in some circumstances members, choose regional provider networks. Services outside the region are available through PHCS, a national network of providers. In addition, specialist mental health network and transplant networks are used to control the costs on related services. Overseas coverage is only available for a 90 day period outside of the United States. Limited benefits are paid when non-participating providers are used.

  Controls and procedures also exist to identify fraud, inaccurate billing, non-disclosure, and pre-existing conditions. A coordination of benefits provision applies when a member has health care coverage under more than one plan, including Medicare.

- *Ongoing risk monitoring*

  The Destiny Health Risk Committee meets monthly focusing on claims experience and medical management of the remaining business. Destiny Health also reports through to the Discovery Holdings Actuarial Committee, a sub-committee of the Discovery Holdings' Board, meeting at least four times per year.

Concentration risk

Concentration of risk increases Destiny Health's exposure to factors impacting the severity and frequency of claims. Destiny Health has historically been focused on diversifying geographical, group size exposure and quality of business risk to promote a balanced portfolio.

Concentration metrics are summarised below:

Distribution by Age and Market

2008	Illinois	Michigan	Mid-atlantic*	Texas	Wisconsin
sub 20	**13%**	**1%**	**5%**	**1%**	**6%**
20 – 29	**7%**	**0%**	**3%**	**1%**	**3%**
30 – 39	**9%**	**1%**	**3%**	**1%**	**3%**
40 – 49	**10%**	**1%**	**3%**	**1%**	**4%**
50 – 59	**8%**	**0%**	**2%**	**1%**	**4%**
60	**3%**	**0%**	**1%**	**0%**	**1%**

Distribution by Age and Market

2007	Illinois	Massachusetts	Mid-atlantic*	Texas	Wisconsin
sub 20	15%	1%	5%	2%	4%
20 – 29	8%	0%	3%	1%	2%
30 – 39	10%	0%	4%	2%	2%
40 – 49	11%	0%	3%	2%	3%
50 – 59	9%	0%	2%	1%	2%
60 +	4%	0%	1%	0%	1%

* *Washington DC, Virginia and Maryland.*

Concentration risk (continued)

Distribution by Group Size and Market

2008	Illinois	Michigan	Mid-atlantic*	Texas	Wisconsin	Colorado
Individual	**2%**	**0%**	**0%**	**0%**	**0%**	**0%**
Small group	**32%**	**1%**	**9%**	**2%**	**4%**	**2%**
Large Group	**17%**	**2%**	**8%**	**3%**	**18%**	**0%**

2007	Illinois	Massachusetts	Mid-atlantic*	Texas	Wisconsin
Individual	1%	0%	0%	0%	0%
Small group	37%	7%	6%	2%	2%
Large Group	17%	8%	11%	3%	7%

* *Washington DC, Virginia and Maryland.*

IBNR calculation

The IBNR calculation is an estimate of claims incurred but not yet paid at 30 June 2008. The provision is calculated as the difference between the expected fully incurred claims for all months up to the calculation date, and the actual claims already paid for each month as at the calculation date. The calculation of the incurred claims estimate requires assumptions and actuarial judgment. Actual experience will differ from these estimates and impact profits in the post calculation period. The calculation methodology, key assumptions and the sensitivity of the estimate to changes in the key assumptions are outlined below.

Description of IBNR methodology

A monthly outstanding claims liability estimate is calculated for each of the four separate licenses. Sub-categories are developed per license for claims with different completion characteristics.

Claims lag triangles are populated for each category using paid claims information (chain ladder method). Triangles are also generated at the license level.

Completion factors are developed for each triangle. In each case, the final completion factors are a blending of various methods, where the weighting applied to each method varies based on the availability of data, maturity of the block and other notable characteristics. Where insufficient data exists for a particular block, the final completion factors used may be based in part or in full on other similar business. Large claims are removed from the triangle for factor development purposes where these result in disproportionate distortions to the lag pattern.

Sensitivity analysis

The IBNR provision is most sensitive to changes in claims development patterns. Another relevant assumption is medical inflation (trend). The table below shows the impact of a change in these assumptions on the 30 June 2008 IBNR.

	Base		10% increase in claims development patterns		2% increase in trends	
R million	Gross	Net	Gross	Net	Gross	Net
2008						
Destiny	**7**	**7**	**7**	**7**	**7**	**7**
Claredon	**7**	**7**	**7**	**7**	**7**	**7**
Guardian	**66**	**37**	**58**	**29**	**66**	**37**
Stonebridge	**29**	**29**	**29**	**29**	**29**	**29**
Trustmark	**15**	**15**	**15**	**15**	**15**	**15**
Tufts*	**–**	**–**	**–**	**–**	**–**	**–**
	124	**95**	**116**	**87**	**124**	**95**

* *Exposure ceased 30 June 2008.*

3. INSURANCE RISKS *(continued)*

Sensitivity analysis *(continued)*

	Base		10% increase in claims development patterns		2% increase in trends	
R million	Gross	Net	Gross	Net	Gross	Net
2007						
Destiny	29	22	36	29	29	29
Claredon	22	22	22	22	22	22
Guardian	86	43	86	43	86	43
Tufts	7	7	7	7	7	7
	144	94	151	101	144	101

* *Exposure ceased 30 June 2008.*

3.3 PruHealth

Product description

PruHealth offers 3 main product types:

Individual product

This is offered to the retail market either direct or via a broker. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Starter discounts: Up to 30% based on answers to healthcare questions.
- Renewal discounts: Discounts are offered at renewal depending on claims and Vitality status.
- Vitality rewards: Full Vitality package including gym offering and healthcare related rewards.

SME product

This is an age-rated product offered to small groups (2 – 100) via the broker market. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Renewal discounts for employers: Discounts are offered at renewal depending on loss ratio.
- Cashback: Employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- Vitality rewards: A full Vitality package is offered including gym offering and healthcare related rewards.

Corporate product

This is a product with fixed premiums by age that is fully experience rated each year. It is offered by brokers and employee benefit consultants. The product features include:

- Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
- Cashback: Companies can select their desired level of cashback. If selected, employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
- Vitality rewards: A full Vitality package is offered including gym offering and healthcare related rewards.

Insurance risks

PruHealth takes a proactive approach to managing its risk and each business unit responsible for the five risk groupings identified below have initiated a series of risk management processes to ensure that they are adequately controlled.

The key areas of risk are premium pricing, claims volatility and failing to meet target levels of business. Monthly meetings are held to review actual experience against original pricing assumptions. Current claims experience is monitored against expected to ensure that PruHealth's current pricing assumptions are reasonable. Information is fed into the pricing reviews conducted by the Actuarial and Underwriting department. On a quarterly basis, the financial forecast is reviewed against emerging experience. PruHealth measures profitability and solvency using a financial model of the business that projects in force and expected new business cashflows.

PruHealth use Milliman, an external actuarial consultancy, for external peer review and formal product sign off. Milliman will continue to perform ongoing reviews of the results of emerging experience against our pricing assumptions. Their review will focus on underwriting, claims experience, reserving, demographics and new product pricing.

A recent project has been completed to evaluate reinsurance options to PruHealth in the market and an excess of loss reinsurance treaty has been concluded with a joint syndicate consisting of Catlin (a Lloyds syndicate) and Sirius, an international reinsurer. With effect from 1 October 2006, PruHealth entered into a quota share agreement effectively reinsuring 50% of the risk profit of all new business written from that date for a period of approximately seven years. This agreement was amended, effective from 1 October 2007, extending the period of reinsurance by approximately five years and increasing the reinsurer's limit of liability (including, without limitation, for benefits or expenses allowance) from GBP15 million to GBP25 million in excess of the total premium ceded to the reinsurer.

PruHealth has received R136 million (2007: R91 million) from this contract which it disclosed as a recovery of expenses from reinsurer in the income statement.

IBNR calculation

The PruHealth IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. Due to the variability of estimates for the recent months, an adjustment is made to the claims for more recent months to allow for the number of pre-authorised claims and the expected cost per pre-authorised event.

The data used for the chain ladder calculation includes all claims processed from April 2006 to the end of June 2008. Adjustments are made to the IBNR using pre-authorised claims for the period October 2007 to June 2008.

A 10% increase in assumed IBNR will result in a R5 million (2007: R3 million) increase in the IBNR provision.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

Assumptions and estimates form an integral part of financial reporting and have an impact on the amounts reported. Assumptions are based on historical experience and expectations of future outcomes and anticipated changes in the environment. Assumptions are further regularly reviewed in the light of emerging experience and adjusted where required.

Policyholder liabilities assumptions and estimates (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 73 to 76. 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 74 of the accounting policies. The process used to decide on best-estimate assumptions is described below:

Experience investigations

Experience investigations into lapse, mortality, morbidity, expenses and other key accounting estimates are performed at every valuation date.

The data for the months since the previous valuation date forms the basis of each investigation. The experience of prior periods is also considered to establish trends and add credibility to the results.

The most recent experience investigations were performed at 30 June 2008.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES *(continued)*

Taxation

Future tax is allowed for according to the current tax legislation and current tax rates.

The current and expected future tax position of each policyholders' tax fund is taken into account in setting the tax assumption.

The individual policyholders' fund (IPF) is currently in an excess expense (XE) position and hence no tax is payable on the interest earned on policyholders' funds within the IPF. Consequently, no allowance is made for tax relief on expenses within the IPF. Current forecasts are that the IPF will remain in an XE position.

Deferred tax arises on the 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% (2007: 29%).

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 2008 was set at 11% p.a. (2007: 8.75% p.a.).

Other investment returns and economic assumptions are set relative to this yield. The assumptions are as follows:

Cash:	Risk free –1.5%
Fixed interest:	Risk free
Equity:	Risk free +2%
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.

Material non-recurring expenses are excluded from the expense analysis used to derive the assumption.

HIV/AIDS

For individual business a fixed loading is applied to the expected best estimate mortality rates to allow for the expected effect of AIDS. The loading varies based on socio-economic class. A HIV test is required for all individual policies with lump sum life cover. Discovery Life further operates in the high end of the market where the AIDS risk is lower compared to the full market. The additional loading for AIDS is set in consultation with external independent actuaries and reinsurers.

For Group policies a loading is applied at the underwriting stage to allow for the expected effect of AIDS. The loading varies based on the industry and geographic area and composition of the group and is derived from advice received from the reinsurers. The loading then forms the AIDS assumption for Group policies.

Reinsurance

All prospective liabilities are valued gross of reinsurance and then adjusted for the expected effect of reinsurance. For outstanding reported claims and incurred but not reported claims liabilities (IBNR), a specific allowance is made for reinsurance recoveries.

The Global Linkage Benefit is fully reinsured. The cost of the future reinsurance is dependant on the cost at which the reinsurer can hedge the liabilities under this benefit. Assumptions are made around the cost at which the reinsurer can hedge the benefits, based on current and historic costs of the hedging structures.

Automatic premium increases

Automatic premium increases could include both contractual and voluntary increases. No allowance is made for voluntary premium increases when calculating liabilities under insurance contracts. Contractual premium increases are defined as increases that cannot be cancelled by the policyholder without altering the terms of the benefits provided under the policy. Contractual increases are included in the calculation of policyholder liabilities.

Policy alterations

In the calculation of policyholder liabilities, no allowance is made for policy alterations over time in accordance with actuarial guidance.

Changes in Assumptions

Assumptions and methodologies are reviewed during each valuation. The impact of changes in the assumptions is reflected in the income statement as the changes occur.

Modelling and assumptions changes were made to the valuation at 30 June 2008 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 R384.5 million (2007: R91.3 million decrease).

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 R657.5 million (2007: R122.1 million increase). See note 7 for an analysis of these changes.

Sensitivities

The sensitivity of the policyholder liabilities on the Financial Soundness Valuation basis is set out on page 104.

5. PROPERTY AND EQUIPMENT

R million	Land and buildings[(1)]	Furniture, fittings and equipment	Computer equipment and operating systems	Leasehold improve-ments	Motor vehicles	Total
Year ended 30 June 2007						
Opening carrying amount	22	64	51	48	1	186
Additions	–	17	21	65	6	109
Disposals						
– Cost	–	–	–	–	(1)	(1)
– Accumulated depreciation	–	–	–	–	1	1
Depreciation charge	(1)	(23)	(35)	(6)	(2)	(67)
Closing carrying amount	21	58	37	107	5	228
At 30 June 2007						
Cost	27	176	366	123	8	700
Accumulated depreciation	(6)	(118)	(329)	(16)	(3)	(472)
Carrying amount	21	58	37	107	5	228
Year ended 30 June 2008						
Opening carrying amount	**21**	**58**	**37**	**107**	**5**	**228**
Exchange differences	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Additions	**–**	**41**	**41**	**50**	**3**	**135**
Disposals						
– Cost	**–**	**(2)**	**–**	**–**	**(1)**	**(3)**
– Accumulated depreciation	**–**	**1**	**–**	**–**	**1**	**2**
Depreciation charge	**(1)**	**(23)**	**(30)**	**(14)**	**(2)**	**(70)**
Closing carrying amount	**20**	**75**	**47**	**143**	**6**	**291**
At 30 June 2008						
Cost	**27**	**216**	**408**	**174**	**10**	**835**
Accumulated depreciation	**(7)**	**(141)**	**(361)**	**(31)**	**(4)**	**(544)**
Carrying amount	**20**	**75**	**47**	**143**	**6**	**291**

(1) The Group's land and buildings are under a finance lease and are therefore restricted. Refer to note 20 for details regarding the finance lease liability. The directors' valuation of the land and buildings is R134 million. The property was not leased out during the current year.

6. INTANGIBLE ASSETS INCLUDING DEFERRED ACQUISITION COSTS

		Deferred acquisition costs		
R million	Software	Investment contracts	Insurance contracts[1]	Total
Year ended 30 June 2007				
Opening carrying amount	54	1	11	66
Foreign currency adjustment on translation				
– Cost	–	–	2	2
– Accumulated amortisation	–	–	(1)	(1)
Additions	61	8	39	108
Amortisation charge	(31)	–	–	(31)
Deferred acquisition costs amortised	–	–	(31)	(31)
Closing carrying amount	84	9	20	113
At 30 June 2007				
Cost	216	9	20	245
Accumulated amortisation	(132)	–	–	(132)
Carrying amount	84	9	20	113
Year ended 30 June 2008				
Opening carrying amount	**84**	**9**	**20**	**113**
Foreign currency adjustment on translation				
– Cost	**(15)**	**–**	**11**	**(4)**
– Accumulated amortisation	**15**	**–**	**(9)**	**6**
Additions	**65**	**91**	**79**	**235**
Amortisation charge	**(40)**	**–**	**–**	**(40)**
Deferred acquisition costs amortised	**–**	**–**	**(67)**	**(67)**
Closing carrying amount	**109**	**100**	**34**	**243**
At 30 June 2008				
Cost	**266**	**100**	**34**	**400**
Accumulated amortisation	**(157)**	**–**	**–**	**(157)**
Carrying amount`	**109**	**100**	**34**	**243**

(1) This intangible asset relates to short term insurance contracts only.

7. ASSETS ARISING FROM INSURANCE CONTRACTS

R million	Group 2008	Group 2007
Long-term insurance contracts – gross	4 165	3 374
Less: recovery from reinsurers	(245)	(260)
Long-term insurance contracts – net	3 920	3 114
Current	876	590
Non-current	3 414	2 524
Variable	(370)	–
	3 920	3 114
Movement in assets arising from insurance contracts		
Balance at the beginning of the year	3 114	2 463
Movement for the year:		
Expected movement in policyholder liabilities	(759)	(530)
Unwinding of discount rate	264	203
New business written	809	693
Experience variances	220	72
Mortality and morbidity	8	3
Lapses	(121)	(48)
Policy alterations	67	(39)
Premium income	260	158
Economic (CPI)	6	(2)
Modelling and method changes	105	10
Benefit enhancements	–	(10)
Changes in assumptions	(490)	91
Lapses	(152)	(42)
Economic	(338)	17
Mortality and morbidity	–	144
Expenses	–	(28)
Margin reset[1]	657	122
Balance at the end of the year	3 920	3 114

(1) *In line with accounting policy 22.3, 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.*

R million		Group 2008	Group 2007
8.	**INVESTMENT IN ASSOCIATE**		
	Sedibeng (Proprietary) Limited (incorporated in South Africa)	**1**	1

Sedibeng (Proprietary) Limited

Sedibeng (Proprietary) Limited ("Sedibeng") provides financial services to local clients. Discovery Health (Pty) Limited holds 10% (2007: 10%) of the issued share capital and has representation on the board of directors of Sedibeng.

The loss attributable to ordinary shareholders for the year ended 30 June 2008 amounted to R2 million (2007: R2 million)

Summarised financial information of associated company at 30 June:

R million	2008	2007
Balance sheet		
Non-current assets	*	*
Current assets	*	*
Non-current liabilities	(2)	(2)
Current liabilities	*	*
Equity	(2)	(2)
Income statement		
Revenue	*	*
Net loss for the 12 months ended 30 June	*	(2)
Accumulated deficit at 30 June	(2)	(2)

* *Amount is less than R500 000.*

9. INVESTMENT IN JOINT VENTURES

Prudential Health Holdings Limited

Prudential Health Holdings Limited ("PruHealth") provides consumer-engaged private medical insurance to clients in the United Kingdom. Discovery holds 50% (2007: 50%) of the issued share capital of PruHealth. Discovery accounts for interests in jointly controlled entities by proportionate consolidation.

PruProtect

PruProtect provides consumer-engaged life insurance to clients in the United Kingdom on Prudential Assurance Company's licence. PruHealth, in which Discovery holds 50% of the issued share capital, is entitled to 100% of the profits and losses, assets and liabilities of the venture. Discovery accounts for interests in jointly controlled entities by proportionate consolidation.

Summarised financial information of Discovery's share of the joint venture companies at 30 June:

	PruHealth		PruProtect	
R million	2008	2007	2008	2007
Balance sheet				
Non-current assets	2	2	–	–
Current assets	710	357	207	–
Current liabilities	(267)	(156)	(312)	–
Equity	445	203	(105)	–
Income statement				
Revenue	520	278	7	–
Expenses	(680)	(262)	(145)	–
Net loss for the 12 months ended 30 June	(140)	(99)	(99)	–
Accumulated deficit at 30 June	(492)	(352)	(99)	–

R million	Note	Group 2008	Group 2007
10. FINANCIAL ASSETS			
The Group's financial assets are summarised by measurement category in the table below:			
Available-for-sale		**2 217**	2 293
Equity securities		**1 322**	1 516
Equity linked notes(1)		**47**	45
Debt securities		**117**	263
Inflation linked securities		**43**	–
Money market		**688**	469
Fair value through profit or loss		**1 569**	875
Equity securities		**733**	639
Equity linked notes(1)		**412**	78
Debt securities		**56**	50
Inflation linked securities		**22**	–
Money market		**346**	108
Derivatives used for hedging	11	**35**	–
Loans and receivables including insurance receivables	12	**1 478**	888
Total financial assets		**5 299**	4 056
Current portion		**1 935**	795
Non-current portion		**850**	983
Variable(2)		**2 514**	2 278
		5 299	4 056
Listed		**3 794**	2 292
Unlisted		**1 505**	1 764
		5 299	4 056

(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) The 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.

R million	Group 2008 Assets	Group 2008 Liabilities	Group 2007 Assets	Group 2007 Liabilities
11. DERIVATIVE FINANCIAL INSTRUMENTS				
Phantom share scheme – cash flow hedge	**19**	**–**	–	–
Phantom share scheme – fair value hedge	**16**	**–**	–	–
Forward exchange contracts – fair value hedge	**–**	**6**	–	2
	35	**6**	–	2
Current portion	**4**	**6**	–	–
Non-current portion	**31**	**–**	–	2
	35	**6**	–	2

Please refer to page 90 for a detailed description of the derivative financial instruments listed above.

	R million	Group 2008	Group 2007
12.	**LOANS AND RECEIVABLES INCLUDING INSURANCE RECEIVABLES**		
	Receivables arising from insurance and reinsurance contracts:		
	– premiums debtors	**173**	185
	– less provision for impairment of premiums debtors	**(43)**	(35)
	– reinsurance debtors	**492**	225
	Other loans and receivables:		
	– Discovery Health Medical Scheme	**248**	230
	– closed scheme debtors	**15**	15
	– joint venture loans	**31**	22
	– loans to share trust participants	**157**	–
	– prepayments	**67**	42
	– Prudential Assurance Company	**161**	112
	– other debtors	**214**	132
	– less provision for impairment of other loans and receivables	**(37)**	(40)
	Total loans and receivables	**1 478**	888*
	Current portion	**1 047**	752
	Non-current portion	**431**	136
		1 478	888

* *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	**99**	51
	Current	**99**	51

Amounts due from reinsurers in respect of claims paid and reported by the Group on the contracts that are reinsured are included in Loans and receivables (Note 12)

14.	**CASH AND CASH EQUIVALENTS**		
	Cash at bank and in hand	**303**	386
	Short-term deposits	**509**	610
		812	996

The effective interest rate on short-term deposits was 10.26% (2007: 8.15%) and the average maturity 11 days (2007: 11 days).

	Number of Shares	Ordinary shares R million	Share premium R million	Total R million

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	Total R million
Company share capital at 30 June 2007	591 953 180	1	1 716	1 717
Adjustment due to share incentive trusts and BEE transaction	(53 245 348)	*	(162)	(162)
Shares issued at no value on redemption of preference shares	–	*	(162)	(162)
Group share capital at 30 June 2007	538 707 832	1	1 392	1 393
Company share capital at 30 June 2008	**591 953 180**	**1**	**1 716**	**1 717**
Adjustment due to share incentive trusts and BEE transaction	**(45 930 113)**	*****	**(87)**	**(87)**
Shares issued at no value on redemption of preference shares	**–**	*****	**(162)**	**(162)**
Group share capital at 30 June 2008	**546 023 067**	**1**	**1 467**	**1 468**

** Amount is less than R500 000.*

The total authorised number of ordinary shares is 1 billion (2007: 1 billion), with a par value of 0.1 cents per share.

15.2 Preference share capital

In June 2001, Discovery Life issued 1 500 000 "A" cumulative redeemable preference shares of 1 cent each to certain directors and employees. The total authorised number of preference shares is 1 500 000 of 1 cent each.

All three tranches of one third each of the preference shares were redeemed on 31 August 2004, 30 June 2005 and 30 June 2006 respectively. All tranches were redeemed at a premium of R108.44 per share.

On redemption date, the preference shareholders were obliged to invest the full amount of cash received from Discovery Life in Discovery Holdings ordinary shares. Discovery Holdings was, in turn, obliged to invest an equivalent amount in new ordinary shares of Discovery Life.

Following the redemption of all three tranches, the preference shareholders subscribed for 12 811 588 ordinary shares in Discovery Holdings at a price of R12.57 per share. From a group perspective, no cash has been received from the issue of these shares and therefore on consolidation, the proceeds of these share issues have been eliminated.

15.3 Discovery Holdings share incentive trusts and BEE transaction

	2008 Shares	2007 Shares
Number of ordinary shares allocated at the beginning of the year	**53 245 348**	58 075 353
Number of ordinary shares purchased by BEE participants	**320 251**	314 251
Number of ordinary shares delivered to participants during the year	**(7 635 486)**	(5 144 256)
Number of ordinary shares allocated at the end of the year	**45 930 113**	53 245 348

For more details regarding the trusts refer to note 32.

R million	Group 2008	Group 2007
16. OTHER RESERVES		
Reserve for revaluation of available-for-sale investments	**299**	542
Currency translation reserve	**151**	115
Share-based payment reserve	**289**	257
Hedging reserve	**(18)**	(2)
Total other reserves at 30 June	**721**	912
Movements in other reserves were as follows:		
Reserve for revaluation of available-for-sale investments		
Balance at the beginning of the year	**542**	319
Unrealised gains on investments	**(25)**	458
Capital gains tax on unrealised gains on investments	**4**	(48)
Realised gains on investments transferred to income statement	**(252)**	(195)
Capital gains tax on realised gains on investments	**30**	8
Balance at the end of the year	**299**	542
Currency translation reserve		
Balance at the beginning of the year	**115**	112
Currency translation differences	**36**	3
Balance at the end of the year	**151**	115
Share-based payment reserve		
Balance at the beginning of the year	**257**	205
Share-based payments	**32**	52
Balance at the end of the year	**289**	257
Hedging reserve		
Balance at the beginning of the year	**(2)**	4
Transfer from hedging reserve	**(16)**	(6)
Balance at the end of the year	**(18)**	(2)
17. LIABILITIES ARISING FROM INSURANCE CONTRACTS		
Gross		
Short-term insurance contracts:		
– claims reported and loss adjustment expenses	**636**	423
– claims incurred but not reported	**313**	307
– unearned premiums	**63**	12
Long-term insurance contracts:		
– with fixed and guaranteed terms	**43**	–
– unitised fund value of policyholder contracts	**6**	–
Total liabilities arising from insurance contracts, gross	**1 061**	742
Recoverable from reinsurers		
Short-term insurance contracts:		
– claims incurred but not reported	**(77)**	(51)
Long-term insurance contracts:		
– with fixed and guaranteed terms	**(22)**	–
Total reinsurers' share of liabilities arising from insurance contracts (Note 13)	**(99)**	(51)

R million	Group 2008	Group 2007

17. LIABILITIES ARISING FROM INSURANCE CONTRACTS *(continued)*

Net		
Short-term insurance contracts:		
– claims reported and loss adjustment expenses	636	423
– claims incurred but not reported	236	256
– unearned premiums	63	12
Long-term insurance contracts:		
– with fixed and guaranteed terms	21	
– unitised fund value of policyholder contracts	6	–
Total liabilities arising from insurance contracts, net	962	691
Current portion	956	691
Non-current portion	6	–
	962	691

Movements in the liabilities are as follows:

	2008			2007		
R million	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Claims reported and loss adjustment expenses						
Notified claims	423	–	423	228	–	228
Incurred but not reported	307	(51)	256	228	(32)	196
Balance at the beginning of the year	730	(51)	679	456	(32)	424
Cash paid for claims settled in the year	(321)	51	(270)	(154)	–	(154)
Increase/(decrease) in liabilities						
– arising from current year claims	586	(77)	509	460	(19)	441
– arising from prior year claims	(62)	–	(62)	(32)	–	(32)
Net exchange differences	16	–	16	–	–	–
Total at the end of the year	949	(77)	872	730	(51)	679
Notified claims	636	–	636	423	–	423
Incurred but not reported	313	(77)	236	307	(51)	256
Total at the end of the year	949	(77)	872	730	(51)	679
Provisions for unearned premiums						
At the beginning of the year	12	–	12	8	–	8
Increase in the period	51	–	51	4	–	4
Total at the end of the year	63	–	63	12	–	12

R million	Group 2008	Group 2007
Long-term insurance contracts		
With fixed and guarantee terms		
Premiums received	10	–
Benefit payments	(3)	–
Investment return	(5)	–
Expected movement in policyholder liabilities	19	–
With fixed and unit-linked terms		
Premiums received	6	–
Benefit payments	*	–
Balance at the end of the year	27	–

* *Amount is less than R500 000.*

R million		Group 2008	Group 2007
18.	**LIABILITIES ARISING FROM REINSURANCE CONTRACTS**		
	Balance at the beginning of the year	**20**	24
	Increase in liability	**2**	4
	Premiums paid in the year	**(7)**	(8)
	Balance at the end of the year	**15**	20
	Current	**5**	7
	Non-current	**10**	13
		15	20
19.	**INVESTMENT CONTRACTS AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	The movements during the year were as follows:		
	Balance at the beginning of the year	**735**	604
	Premiums received	**589**	52
	Fees deducted from account balances	**(16)**	(28)
	Account balances paid on withdrawal and other terminations in the year	**(92)**	(34)
	Fair value adjustment	**14**	141
	Balance at the end of the year	**1 230**	735
	Non-current	**1 230**	735

The benefits offered under the Group's unit-linked investment contracts are based on the return of selected equities, debt securities and money market instruments. The Group communicates the actual performance of these contracts to its contract holders.

All financial liabilities at fair value through profit or loss are designated by Discovery to be in this measurement category.

R million		Group 2008	Group 2007
20.	**BORROWINGS AT AMORTISED COST**		
	Bank loan	**–**	33
	Finance lease liability	**37**	40
		37	73
	Current	**5**	36
	Non-current	**32**	37
		37	73

Bank loan

At 30 June 2008, Destiny Health had a credit agreement with HSBC Bank which provides for cash borrowings in an aggregate principal amount up to but not exceeding US$20 000 000, with a standby letter of credit sublimit of US$13 000 000. At 30 June 2008, Destiny Health had no cash borrowings outstanding and has three standby letters of credit outstanding totaling US$7 500 000. The credit facility carries an interest rate of LIBOR plus 1.25% on outstanding cash borrowings, standby letter of credit fees of 1.25% of the letter of credit amounts outstanding, and a 0.25% unused facility fee. The current Credit Agreement calls for a reduction in the total borrowing limit on the credit facility from US$20 000 000 to US$15 000 000 on 22 December 2008. The maturity date of this credit facility is 20 April 2009 and this credit agreement is guaranteed by Discovery Holdings Limited.

R million	Group 2008	Group 2007

20. BORROWINGS AT AMORTISED COST *(continued)*

Finance lease liability

The finance lease is in respect of land and buildings purchased in July 1998. The effective interest rate on the lease is at 25%. The fair value of the finance lease liability is R44 million at 30 June 2008.

R million	Group 2008	Group 2007
The minimum lease payments are as follows:		
Not later than 1 year	**14**	13
Later than 1 year and not later than 5 years	**41**	54
	55	67
Future finance charges on finance lease	**(18)**	(27)
Finance lease liability	**37**	40

21. DEFERRED INCOME TAX

R million	Group 2008	Group 2007
Deferred tax asset	**128**	80
– Current	**20**	3
– Non-current	**108**	77
Deferred tax liability	**(1 031)**	(806)
– Current	**(172)**	(8)
– Non-current	**(859)**	(798)
	(903)	(726)
Movement summary:		
Balance at beginning of year	**(726)**	(477)
Income statement charge	**(215)**	(203)
Deferred tax on cashflow hedge charged to equity	**4**	–
Capital gains taxation on market value adjustments and realised gains:		
– charged to equity	**34**	(40)
– charged to investment contracts at fair value through profit or loss	**–**	(6)
Balance at the end of the year	**(903)**	(726)

21. DEFERRED INCOME TAX *(continued)*

Deferred taxation comprises:

R million	Opening balance	Change in tax rate	Charge for the year	Closing balance
Year ended 30 June 2008				
Deferred tax asset	**80**	**(2)**	**50**	**128**
Provisions	**14**	**–**	**1**	**15**
Other deductible temporary differences				
– Operating leases	**20**	**(1)**	**–**	**19**
– Finance lease	**6**	**–**	**(1)**	**5**
– Cash flow hedge	**–**	**–**	**4**	**4**
– Fair value hedge	**–**	**–**	**5**	**5**
– Deferred revenue	**–**	**–**	**3**	**3**
– Other	**–**	**–**	**2**	**2**
Share-based payments	**15**	**–**	**(1)**	**14**
Assessed loss in company policyholders fund	**2**	**–**	**1**	**3**
Assessed loss in subsidiaries	**–**	**–**	**11**	**11**
Value of untaxed fund liabilities in excess of assets	**23**	**(1)**	**25**	**47**
Deferred tax liability	**(806)**	**28**	**(253)**	**(1 031)**
Difference between accounting and tax balances arising from insurance contracts	**(656)**	**22**	**(264)**	**(898)**
Capital gains tax on available-for-sale financial instruments	**(103)**	**4**	**30**	**(69)**
Capital gains tax on financial instruments at fair value through profit or loss	**(18)**	**1**	**5**	**(12)**
Difference between wear and tear and depreciation	**(16)**	**1**	**(10)**	**(25)**
Other deductible temporary differences				
– Deferred acquisition costs	**–**	**–**	**(18)**	**(18)**
– Prepayments	**(8)**	**–**	**3**	**(5)**
– Other	**(5)**	**–**	**1**	**(4)**
	(726)	**26**	**(203)**	**(903)**
Year ended 30 June 2007				
Deferred tax asset	41	–	39	80
Provisions	13	–	1	14
Other deductible temporary differences				
– Operating leases	19	–	1	20
– Finance lease	6	–	–	6
– Income received in advance	1	–	(1)	–
Share-based payments	1	–	14	15
Assessed loss in company policyholders fund	–	–	2	2
Value of untaxed fund liabilities in excess of assets	1	–	22	23
Deferred tax liability	(518)	–	(288)	(806)
Difference between accounting and tax balances arising from insurance contracts	(421)	–	(235)	(656)
Capital gains tax on available-for-sale financial instruments	(63)	–	(40)	(103)
Capital gains tax on financial instruments at fair value through profit or loss	(12)	–	(6)	(18)
Difference between wear and tear and depreciation	(13)	–	(3)	(16)
Other deductible temporary differences				
– Prepayments	(6)	–	(2)	(8)
– Other	(3)	–	(2)	(5)
	(477)	–	(249)	(726)

All South African entities are in a tax paying position. Destiny operations have significant losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

Taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers. Discovery Life currently has an assessed loss in the individual policyholders' fund of R5.6 billion (2007: R4.3 billion) for which no deferred tax asset has been created.

R million	Reinsurance income	Administration fee income	Gym activation fees	Total
22. DEFERRED REVENUE				
At 1 July 2006	101	41	61	203
Realised through the income statement	(58)	(29)	(53)	(140)
Interest payable	–	2	–	2
Deferred income relating to new business	–	–	57	57
At 30 June 2007	43	14	65	122
At 1 July 2007	**43**	**14**	**65**	**122**
Realised through the income statement	**(43)**	**(14)**	**(56)**	**(113)**
Deferred income relating to new business	**–**	**–**	**61**	**61**
At 30 June 2008	**–**	**–**	**70**	**70**

R million	Group 2008	Group 2007
Current	**46**	89
Non-current	**24**	33
	70	122

Reinsurance income: With effect from 1 July 2004 a quota share agreement was entered into effectively reinsuring 50% of the risk profits of the business in-force as at 31 December 2003 for a fixed period of approximately six years. The unearned portion of the R200 million received in terms of this contract in July 2004 was included in deferred revenue and is being released to income over the period of the contract.

Administration fee income: This is a prepayment received by Discovery Health in respect of approximately 60% of the costs incurred in administering the PruHealth business for the period July 2006 to December 2007.

Gym activation fees: Fees received from Vitality members on activation of their gym contracts are deferred over the period of the contract.

R million	Group 2008	Group 2007
23. PROVISIONS		
Leave pay		
Opening balance	**48**	36
Charged to income statement	**6**	12
Closing balance	**54**	48
24. TRADE AND OTHER PAYABLES		
Payables and accrued liabilities	**636**	313
Payroll creditors	**103**	90
Personal medical funds	**72**	84
Straight lining operating lease payments	**74**	79
Value-added tax	**27**	19
Policyholder unallocated funds	**32**	–
Due to reinsurers	**22**	41
Other creditors	**150**	107
	1 116	733
Current	**961**	682
Non-current	**155**	51
	1 116	733

R million	Group 2008	Group 2007
25. NET INSURANCE PREMIUMS		
Health	**1 029**	1 264
Recurring premiums	**1 210**	1 357
Reinsurance premiums	**(181)**	(93)
Individual life	**2 284**	1 671
Recurring premiums	**2 730**	2 065
Reinsurance premiums	**(446)**	(394)
Group life	**200**	182
Recurring premiums	**353**	288
Reinsurance premiums	**(153)**	(106)
	3 513	3 117
Gross income of Group	**4 293**	3 710
Outward reinsurance premiums	**(780)**	(593)
	3 513	3 117
26. INVESTMENT INCOME		
Available-for-sale	**89**	67
– interest	**60**	36
– dividends	**36**	37
– investment charges	**(7)**	(6)
At amortised cost interest income	**16**	5
Cash and cash equivalents interest income	**105**	103
	210	175
27. NET REALISED GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS		
Realised gains	**281**	234
– equity securities	**263**	232
– debt securities	**6**	1
– foreign assets	**12**	1
Realised losses	**(29)**	(39)
– equity securities	**(20)**	(37)
– debt securities	**(9)**	(2)
	252	195
28. NET FAIR VALUE GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Investment income	**28**	11
– interest	**22**	10
– dividends	**11**	6
– investment charges	**(5)**	(5)
Net realised gains	**96**	41
Net fair value gains	**(99)**	99
	25	151

R million	Group 2008	Group 2007
29. NET CLAIMS AND POLICYHOLDERS' BENEFITS		
Health insurance claims	**813**	960
Gross claims	**931**	1 042
Less: Reinsurance recoveries	**(118)**	(82)
Individual life insurance claims	**602**	388
Death	**557**	365
Disability	**427**	340
Less: Reinsurance recoveries	**(382)**	(317)
Group life insurance claims	**106**	96
Death	**139**	116
Disability	**68**	56
Less: Reinsurance recoveries	**(101)**	(76)
Individual investment benefits	**34**	–
Surrenders	**31**	–
Retirement	**3**	–
	1 555	1 444
Policyholder benefits	**2 156**	1 919
Recoveries from reinsurers	**(601)**	(475)
Net policyholder benefits	**1 555**	1 444
30. ACQUISITION COSTS		
Commission expenses	**1 196**	1 046
Movement in deferred acquisition costs	**(85)**	(31)
Movement in deferred revenue liability	**21**	–
	1 132	1 015
31. MARKETING AND ADMINISTRATION EXPENSES		
Marketing and administration expenses comprises:		
Employee costs	**1 692**	1 394
Marketing and distribution costs	**360**	315
IT systems and consumables	**175**	174
Building related and office costs	**307**	285
Depreciation and amortisation	**112**	98
Vitality benefit costs	**643**	560
Other costs	**495**	243
	3 784	3 069
Marketing and administration expenses include the following:		
Amortisation of intangible assets (note 6)		
Software	**40**	31
Auditors' remuneration		
Audit fees		
– current year	**11**	8
– prior year	**–**	1
Fees for other services	**2**	–
	13	9

Notes to the annual financial statements (continued)

for the year ended 30 June 2008

R million	Group 2008	Group 2007
31. MARKETING AND ADMINISTRATION EXPENSES *(continued)*		
Depreciation on property and equipment (note 5)		
Land and buildings	**1**	1
Furniture, fittings and equipment	**23**	23
Computer equipment and operating systems	**30**	35
Leasehold improvements	**14**	6
Motor vehicles	**2**	2
	70	67
Employee costs		
Salaries, wages and allowances	**1 402**	1 072
Medical aid fund contributions	**69**	56
Defined contribution provident fund contributions	**64**	56
Social security levies	**18**	16
Share-based payment expenses		
– equity	**10**	18
– liability	**12**	45
Staff training	**10**	9
Recruitment fees	**16**	21
Temporary staff	**47**	47
Provision for leave pay	**6**	12
Other	**38**	42
	1 692	1 394

Executives directors' remuneration is included in employee costs. Refer to Directorate.

R million	Group 2008	Group 2007
Operating lease charges		
Land and buildings	**109**	108
Computer and office equipment	**83**	77
	192	185
Professional fees		
Actuarial fees	**3**	6
Technical and other	**122**	108
	125	114
Repairs and maintenance expenditure		
Computer repairs and maintenance	**6**	11
Furniture and equipment maintenance	**1**	4
Office repairs and maintenance	**4**	7
Software maintenance	**45**	38
	56	60
Other operating costs		
Impairment of receivables	**4**	7
Reversal of impairment of receivables	**–**	(10)
Foreign exchange losses on supplier balances	**3**	2

32. SHARE-BASED PAYMENT EXPENSES

32.1 Staff incentive schemes

Discovery Holdings operates four share-based payment arrangements with employees. The details of these arrangements are described below:

1. The Discovery Holdings Limited share trust

The Discovery Holdings incentive scheme is a "deferred implementation" incentive scheme. Options are exercised at the market share price ruling on the date the options are allocated and must be exercised on that date. Shares offered to participants are issued to the trust on the same date.

For options allocated prior to 2004, of the shares offered at option date, delivery may only be taken by the participant 2, 3, 4 and 5 years after the option is exercised at a rate of 25% per annum. Any shares not taken delivery of by the end of the 5th year from the date the option is exercised, must be delivered to the participant.

For options allocated in 2004, of the shares offered at option date, delivery may only be taken by the participant 2, 3 and 4 years after the option is exercised at a rate of 33.3% per annum. Any shares not taken delivery of by the end of the 4th year from the date the option is exercised, must be delivered to the participant.

No payment is required from the participant until delivery of the shares is taken. Payment for the shares must be made before delivery of the shares can be taken. The trust has not offered loans to participants. All staff are eligible to participate in the share incentive scheme.

2. BEE staff trust

5 290 000 Discovery Holdings' shares were issued to the BEE staff trust for current and future employees. The trust consists of two components; the allocation scheme and the option scheme as described below:

Allocation scheme

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees 2, 3, 4 and 5 years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares and cash, if any, to which the employee may be entitled.

Option scheme

Options granted to black employees may be exercised 2, 3, 4 and 5 years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the 5th year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

3. The Destiny Health Inc. stock option plan

Options are granted at the fair value price at date of grant, currently US$3.42. Options vest 25% per year for 4 years and must be exercised within 6 years of the date that 100% vest otherwise the options expire.

The share option schemes mentioned in 1, 2 and 3 above have been classified as equity-settled schemes and therefore, a share-based payment reserve has been recognised.

4. The phantom scheme

Participants earn a cash bonus based on allocation of bonus scheme units which in turn are linked to the performance of the Discovery share price. The bonus is earned if the participant is employed on each vesting date. The vesting of the scheme is 2, 3, 4 and 5 years after allocation of the bonus units. The bonus may not be carried forward.

In the calculation of the bonus, the participants may choose to replicate the economics of a Discovery share or a call option over a Discovery share or a combination of both. This scheme has been classified as a cash-settled scheme.

32. SHARE-BASED PAYMENT EXPENSES *(continued)*

The following is a summary of the terms and conditions of the share options granted:

Date granted	Option price	Final vesting date	Shares under option at beginning of year	Options granted during year	Options delivered during year	Options cancelled during year	Shares under option at end of year
1. The Discovery Holdings Limited share trust							
01/09/2002	R7.20	01/09/2007	3 677 584	–	(3 677 584)	–	–
30/09/2004	R14.40	30/09/2008	9 264 911	–	(1 362 400)	(108 336)	7 794 175
2. BEE staff trust							
13/09/2005	R21.47	13/09/2010	1 101 000	–	(33 750)	(105 750)	961 500
13/09/2005	R0.00	13/09/2010	2 866 700	–	(1 112 260)	(287 818)	1 466 622
30/09/2006	R22.30	30/09/2011	540 000	–	–	(135 000)	405 000
30/09/2006	R0.00	30/09/2011	180 000	–	–	(45 000)	135 000
15/07/2007	R30.00	30/06/2012	–	217 500	–	–	217 500
15/07/2007	R0.00	30/06/2012	–	42 500	–	–	42 500
3. The phantom scheme							
30/09/2005	R21.50	30/09/2010	5 939 794	–	(1 483 659)	(358 806)	4 097 329
30/09/2005	R0.00	30/09/2010	579 893	–	(143 927)	(46 796)	389 170
30/09/2006	R22.30	30/09/2011	6 375 089	–	–	(249 976)	6 125 113
30/09/2006	R0.00	30/09/2011	1 160 125	–	–	(85 250)	1 074 875
30/09/2007	R26.40	30/09/2012	–	3 556 575	–	(200 475)	3 356 100
30/09/2007	R0.00	30/09/2012	–	1 407 250	–	(57 750)	1 349 500
4. The Destiny Health Inc. stock option plan							
01/08/2001	$2.00	31/07/2005	11 250	–	(5 000)	–	6 250
29/08/2001	$2.00	28/08/2005	10 000	–	–	(10 000)	–
01/10/2001	$2.00	30/09/2005	375	–	–	–	375
01/11/2001	$2.00	30/09/2005	15 000	–	(15 000)	–	–
12/11/2001	$2.00	11/11/2005	1 250	–	(1 250)	–	–
06/05/2002	$2.00	05/05/2006	1 000	–	–	(1 000)	–
01/08/2002	$2.00	31/07/2006	2 000	–	–	–	2 000
14/08/2002	$2.00	13/08/2006	2 000	–	–	(2 000)	–
15/10/2002	$2.00	14/10/2006	1 000	–	–	–	1 000
01/01/2003	$2.00	31/12/2006	30 000	–	(30 000)	–	–
01/03/2003	$2.00	28/02/2007	28 250	–	(17 500)	–	10 750
13/03/2003	$2.00	12/03/2007	1 000	–	–	–	1 000
03/06/2003	$2.11	02/06/2007	3 000	–	(3 000)	–	–
07/07/2003	$2.11	06/07/2007	75 272	–	–	–	75 272
16/07/2003	$2.11	15/07/2007	5 000	–	(5 000)	–	–
16/09/2003	$2.11	15/09/2007	294 500	–	(90 125)	(96 625)	107 750
01/12/2003	$2.11	30/11/2007	18 750	–	–	–	18 750
01/06/2004	$2.11	31/05/2008	50 000	–	–	(50 000)	–
02/08/2004	$3.38	01/08/2008	80 000	–	–	–	80 000
01/09/2004	$3.38	31/08/2008	5 000	–	(2 500)	(2 500)	–
22/06/2005	$3.38	21/06/2009	400 500	–	(66 750)	(155 750)	178 000
17/01/2006	$3.33	16/01/2010	282 500	–	–	–	282 500

4. The Destiny Health Inc. stock option plan *(continued)*

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
05/07/2006	$3.27	04/07/2010	25 000	–	–	–	25 000
18/07/2006	$3.27	17/07/2010	30 000	–	–	(30 000)	–
14/08/2006	$3.27	13/08/2010	250 000	–	–	–	250 000
01/09/2006	$3.27	31/08/2010	30 000	–	–	(30 000)	–
12/09/2006	$3.27	11/09/2010	5 000	–	–	–	5 000
16/10/2006	$3.27	15/10/2010	20 000	–	–	(20 000)	–
14/11/2006	$3.27	13/11/2010	50 000	–	–	–	50 000
15/03/2007	$3.42	14/03/2011	150 000	–	–	–	150 000
15/06/2007	$3.42	14/06/2011	620 000	–	–	(280 000)	340 000
14/08/2007	$3.42	13/08/2011	–	20 000	–	–	20 000
21/08/2007	$3.42	20/08/2011	–	150 000	–	–	150 000
01/11/2007	$3.42	31/10/2011	–	20 000	–	(20 000)	–

The fair value of the shares granted during the period was calculated based on the market price of a Discovery share at the date of grant.

The fair value of options granted was calculated on a Black-Scholes model using the following assumptions:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
Discovery Holdings Share Trust					
– issued on 30 September 2004	R14.40	R14.40	2 to 4 years	27.3%	–
BEE Staff Trust					
– issued on 13 September 2005	R21.47	R21.47	2 to 5 years	27.3%	–
– issued on 30 September 2006	R22.30	R22.30	2 to 5 years	27.3%	1.48
– issued on 15 July 2007	R30.00	R30.00	2 to 5 years	27.3%	1.48
Phantom scheme					
– issued on 30 September 2005	R21.70	R21.50	0.25 to 2.25 years	35% to 28%	0.45 to 1.65
– issued on 30 September 2006	R21.70	R22.30	0.25 to 3.25 years	35% to 28%	0 to 1.65
– issued on 30 September 2007	R21.70	R26.40	1.25 to 4.25 years	35% to 28%	0 to 1.31
Destiny Health stock option plan	$2.00 – $3.42	$2.00 – $3.42	6.25 years	14.1%	–

The phantom scheme is cash-settled and is thus repriced at each reporting date.

32.2 Black Economic Empowerment (BEE) transaction and IFRS2

Discovery concluded a BEE transaction in September 2005 pursuant to which 38 725 909 shares were issued to BEE parties as follows:

BEE parties	Number of shares	Subscription price per share
Dlamini SPV	200 000	0.001
Zilwa SPV	200 000	0.001
WDBIH SPV	17 703 273	0.113
Maphai SPV	1 106 455	1.718
Discovery Foundation	14 226 181	0.001
BEE staff share trust	5 290 000	0.001

32. SHARE-BASED PAYMENT EXPENSES *(continued)*

Mechanics of the transaction with BEE partners other than BEE staff share trust ("BEE parties")

The difference between the market value of the ordinary shares issued to the BEE parties of R715 million and the subscription consideration of R3.9 million represents an outstanding funded amount provided by Discovery shareholders (" the funded amount"). The BEE parties will provide Discovery and its subsidiaries with a right to purchase, at the end of 10 years, such number of ordinary shares at 0.1 cent per share ("the par value") as will provide Discovery with a notional return on this funded amount (" the Discovery repurchase agreement").

In order to allow the BEE parties to retain the full number of Discovery shares originally issued to them the BEE parties will have a right to simultaneously acquire from Discovery, at the then 30-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

Shares acquired by the BEE parties rank pari passu with existing Discovery shares. The BEE parties have undertaken to utilise any dividend or capital distributions made by Discovery to aquire additional Discovery shares in the market within three months of the date of any distribution.

For purposes of IFRS 2, the transaction has been accounted for based on the fair value of a share option with a similar economic effect. In respect of the WDBIH SPV, the Maphai SPV and the Foundation SPV, the transaction was expensed in full in the 2006 financial year. This fair value has been determined using a Black-Scholes model with the following assumptions:

	WDBIH SPV	Maphai SPV	Foundation SPV
Spot price	R 21.47	R 21.47	R 21.47
Exercise price	R 81.82	R 60.55	R 64.21
Option term	10 years	10 years	10 years
Volatility	27.3%	27.3%	27.3%
Dividend yield	0%	0%	0%

For details of staff scheme, refer to note 32.1 above. The Dlamini SPV and Zilwa SPV are valued in line with the BEE staff trust.

R million	**Group 2008**	Group 2007
33. FINANCE COSTS		
Interest expense:		
On bank loan	**12**	8
On finance lease liability	**10**	11
On accounts payable balances	**3**	–
On administration fees received in advance	**–**	2
Early settlement discount*	**27**	–
	52	21

* *R27 million has been included in finance charges relating to a settlement discount on early payment by Prudential for UK tax losses ceded to them.*

34. FOREIGN EXCHANGE PROFIT – UNREALISED		
Foreign exchange profit on borrowings	**4**	3

The exchange profit arises on the translation of the rand based prepayment made by PruHealth to Discovery Health in respect of administration fees.

R million	Group 2008	Group 2007
35. TAXATION		
Charge for the year:		
Current taxation	**263**	150
South African normal taxation	**291**	259
Foreign countries normal taxation	**(58)**	(120)
South African capital gains taxation	**30**	11
Deferred taxation	**215**	203
Secondary tax on companies	**28**	32
	506	385

	%	%
Taxation rate reconciliation		
Effective taxation rate	**30.4**	26.4
Tax rate adjustment	**1.3**	–
Destiny Health losses not provided for	**(2.9)**	(1.9)
PruHealth losses not provided for	**(0.2)**	–
PruHealth prior year losses utilised	**–**	3.9
Capital profits and dividend income	**4.8**	4.6
Secondary tax on companies	**(1.7)**	(2.2)
Disallowed expenditure	**(1.3)**	(1.2)
Other permanent differences	**(2.4)**	(0.6)
Standard rate of taxation	**28.0**	29.0

Current taxation relating to Discovery Life is determined by applying the four fund method of taxation applicable to life insurers.

Destiny Health has federal tax losses of US$150 million (R1 173 million) (2007: US$129 million (R912 million)) to carry forward against future taxable income. These tax losses have not been recognised in the financial statements and are available for set-off against future taxable profits.

During the prior year, PruHealth entered into a transaction with Prudential Assurance Company Limited ("Prudential") to effectively utilise the tax losses that Discovery has been unable to utilise through consortium relief, such that PruHealth's deferred tax asset is replaced with a cash injection from Prudential. Previously, Discovery was only able to account for an asset on 50% of the PruHealth losses for which consortium relief was available to Prudential in the UK. The utilisation of the tax losses has enabled Discovery to account for a receivable for the balance of the PruHealth losses. The impact of this is to reduce the taxation charge in the prior year by R120 million.

		Group 2008	Group 2007
36.	**EARNINGS PER SHARE**		
	Basic earnings per share		
	Earnings per share is based on net profit after tax attributable to equity holders and the weighted number of ordinary shares in issue.		
	Earnings attributable to equity holders (R million)	**1 156**	1 073
	Weighted number of ordinary shares in issue (000's)	**543 016**	536 560
	Basic earnings per share (cents)	**212.9**	200.0
	Diluted earnings per share		
	Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Discovery has three categories of dilutive potential ordinary shares namely: – "A" cumulative redeemable preference shares which are converted into the number of ordinary shares that equates to the redemption value of these shares; – 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:	**543 016**	536 560
	Weighted average ordinary shares in the staff share trusts (000's)	**4 415**	8 465
	Weighted average ordinary shares issued to BEE parties (000's)	**99**	1 554
		547 530	546 579
	Diluted earnings per share (cents)	**211.1**	196.4
	Headline earnings		
	Headline earnings per share is based on the net profit after tax attributable to equity holders adjusted for items of a capital nature, and the weighted average number of ordinary shares in issue.		
	Headline earnings reconciliation		
	Earnings attributable to equity holders (R million)	**1 156**	1 073
	Adjusted for:		
	– realised profit on available-for-sale financial instruments net of capital gains tax	**(222)**	(187)
	Headline earnings	**934**	886
	Headline earnings per share (cents)	**172.0**	165.2
	Diluted headline earnings per share (cents)	**170.5**	162.2
	Headline earnings per share before BEE transaction:		
	Headline earnings	**934**	886
	BEE expenses	**23**	34
	Headline earnings before BEE transaction	**957**	920
	Headline earnings per share before BEE transaction (cents)	**176.2**	171.5
	Diluted headline earnings per share before BEE transaction (cents)	**174.7**	168.4

37. DIVIDENDS PER SHARE

The dividends paid in 2008 totalled R236 million and comprised a final dividend of 21 cents per share paid on 22 October 2007 and an interim dividend of 21,5 cents per share paid on 25 March 2008.

The dividends paid in 2007 totalled R239 million and comprised a maiden dividend of 27 cents per share paid on 23 October 2006 and an interim dividend of 16 cents per share paid on 2 April 2007.

R million	Group 2008	Group 2007
38. CASH FLOW INFORMATION		
38.1 Cash generated by operations		
Profit before taxation	**1 664**	1 458
Adjusted for:		
Deferred income	**(52)**	(81)
Financing costs	**52**	21
Foreign exchange profit	**(4)**	(3)
Operating lease payments in advance	**2**	2
Investment income	**(227)**	(186)
Realised investment gains and losses	**(349)**	(236)
Premiums, claims and investment charges for liabilities under investment contracts	**482**	(5)
Non-cash items:		
Amortisation	**40**	31
Deferred acquisition costs	**(103)**	(17)
Depreciation	**70**	67
Impairment of fair value hedge	**19**	–
Provisions	**6**	12
Share-based payment expenses	**30**	97
Transfer to liabilities under reinsurance contracts	**2**	4
Transfer from assets/liabilities under insurance contracts	**(751)**	(393)
Transfer to liabilities under investment contracts	**14**	141
Translation differences	**(21)**	(5)
Unrealised gains on investments at fair value through profit or loss	**89**	(99)
Other	**9**	(9)
Working capital changes:		
Loans and receivables including insurance receivables	**(484)**	(198)
Trade and other payables	**615**	156
	1 103	757
38.2 Taxation paid		
Balance at beginning of the year	**4**	(48)
Taxation charged for the year in the income statement	**(506)**	(385)
Adjustment for movement in deferred taxation	**215**	203
Taxation recoverable from consortium relief – PruHealth	**(4)**	(111)
Balance at end of the year	**9**	(4)
	(282)	(345)
38.3 Proceeds from issuance of ordinary shares		
Deferred delivery shares taken up	**46**	45
Proceeds from issue of ordinary shares in Destiny Health	**4**	3
	50	48
38.4 Repayment increase of borrowings		
Balance at the end of the year	**37**	73
Less: Accrued and unpaid interest on loan to Destiny Health	**–**	(7)
Add: Foreign exchange translation	**(1)**	–
Add: Interest paid and foreign exchange loss realised	**6**	8
Less: Balance at the beginning of the year	**(73)**	(161)
	(31)	(87)

R million	Group 2008	Group 2007

39. COMMITMENTS

39.1 Capital commitments

Capital expenditure approved but not contracted for at the balance sheet date is as follows:

R million	Group 2008	Group 2007
Property and equipment	**87**	105
Intangible assets	**148**	135
	235	240

39.2 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 one month to nineteen years. The future minimum commitments in terms of the leases of land and buildings, including Discovery's operational head office, are as follows:

R million	Group 2008	Group 2007
Due within one year	**104**	101
Due within two to five years	**245**	329
Due after five years	**100**	129
Cashflow commitment	**449**	559
Accrued to a liability	**(74)**	(79)
Net commitment	**375**	480

Discovery leases certain computer and office equipment under operating leases. The remaining periods of the leases are from one month to five years. The future minimum commitments are as follows:

R million	Group 2008	Group 2007
Due within one year	**54**	62
Due within two to five years	**45**	42
Cashflow commitment	**99**	104

40. 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.

41. RELATED PARTIES

List of related parties as defined:

Subsidiaries

Directly owned

Details of subsidiaries directly owned by Discovery are contained in company note 1.1.

Joint ventures

Details of the joint venture of Discovery is contained in note 9.

Associates

Details of associates of Discovery are contained in note 8.

Key management personnel

Key management personnel have been defined as Discovery Holdings Limited directors and executive committee members.

Details of the directors and the executive committee of Discovery Holdings Limited are to be found on page 23 and 25 respectively.

It is not considered necessary to disclose details of key management family members and their influenced or controlled separate entities. To the extent specific transactions have occurred between Discovery and these related parties (as defined in IAS 24) the details are included in the aggregate disclosure contained below under key management and where significant, full details of all relationships and terms of the transactions are provided.

Summary of related party transactions:

For purposes of this section Discovery Holdings Limited will be referred to as the Company and where relevant, amounts are excluding value added taxation.

Transactions with related parties

RMB Holdings Limited

Discovery invests from time to time in securities issued by RMB Holdings Limited for the benefit of shareholders and policyholders.

	Nominal holding		Market value	
RMB Holdings ordinary shares included in equity investments	**2008 000's**	2007 000's	**2008 R'000**	2007 R'000
– available-for-sale	**1 011**	1 221	**21 231**	40 129
– at fair value through profit or loss	**306**	409	**6 435**	13 428
Holdings as at 30 June	**1 317**	1 630	**27 666**	53 557

Prudential Health Limited ("PruHealth")

In October 2004, Discovery launched PruHealth as a joint venture with Prudential Assurance Company Limited. In terms of the joint venture arrangement, Discovery provides administration and other services to the joint venture. During the year under review, Discovery received fees for these services of R206 million (2007: R126 million).

Discovery Health Medical Scheme ("DHMS")

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed health care fee respectively. These fees are determined on an arm's length basis and totalled R2 240 million (2007: R2 003 million) net of VAT. Discovery offers the members of DHMS access to the Vitality programme.

Interest paid to DHMS amounted to R1 million (2007: R1 million). DHMS owes Discovery R248 million (2007: R230 million) at year-end.

Managed medical schemes

Discovery Health administers the following restricted membership medical schemes:

- Anglovaal Group Medical Scheme
- Edcon Medical Aid Scheme
- IBM (SA) Medical Aid Society
- LA Health Medical Scheme
- Lonmin Medical Scheme
- Mmed an option of Naspers Medical Scheme
- Quantum Medical Aid Society
- Retail Medical Scheme
- Tsogo Sun Group Medical Scheme
- Umed Medical Scheme
- University of KwaZulu-Natal Medical Scheme

Discovery Consulting Services

Discovery has established a network of 38 franchises in order to establish a national footprint for its products. Discovery has paid R185 million (2007: R181 million) in fees to the franchises.

The Discovery Foundation

The Discovery Foundation was established as part of Discovery's BEE transaction announced on 13 September 2005. As part of the BEE transaction, the Foundation will have the majority of its trustees being black South Africans. Its objective will be the economic upliftment of black South Africans. Amongst its initial programmes, the Foundation will focus on the educational and professional development of black South Africans for the medical and health care industry.

The Discovery Foundation received contributions from Discovery of R5.4 million during the year (2007: R4.4 million).

Transactions with share trusts

Interest free loans to share trusts amounted to R99 million at 30 June 2008 (2007: R154 million).

41. RELATED PARTIES *(continued)*

Key management personnel of Discovery Holdings Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

(i) Discovery Holdings Limited directors' and executive committee members' aggregate compensation paid by the company or on behalf of the company for services rendered to Discovery Holdings Limited:

R million	Group 2008	Group 2007
Salaries and other short-term employee benefits	38	37
Share-based payments		
– Non-executive directors: BEE transaction	–	2
– Other key management personnel: BEE transaction	2	2
– Other key management personnel: Other share-based payments	3	15
Directors' fees	3	2
Total	46	58
Less: paid by subsidiaries	(46)	(58)
Paid by holding company	–	–

(ii) Aggregate details of insurance, annuity and investment transactions between Discovery Holdings Limited, any subsidiary, associate or joint venture of Discovery Holdings Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Insurance contracts

	Aggregate insured cover		Premiums received		Claims paid	
R'000	2008	2007	2008	2007	2008	2007
Life	271 585	200 046	1 336	813	–	–

Investment contracts

	Fund value	
R'000	2008	2007
Balance at 1 July	60	–
Premiums received	611	64
Investment return credited net of charges	(29)	(4)
Balance at 30 June	642	60

(iii) Aggregate details of transactions between Vitality Healthstyle (Pty) Limited and key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management:

Vitality loyalty program

	Premiums received		Amounts paid	
R'000	**2008**	2007	**2008**	2007
Vitality benefits	**22**	24	**102**	66

DiscoveryCard

	Card fees received		Discounts paid	
R'000	**2008**	2007	**2008**	2007
DiscoveryCard	**9**	5	**244**	273

Key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management accrued 1 551 406 Discovery miles as part of the DiscoveryCard loyalty program for the year ended 30 June 2008 (2007: 1 204 847).

(iv) Aggregate shareholdings of key management personnel, their families (as defined per IAS 24) and entities significantly influenced or controlled by key management, in Discovery Holdings Limited as at 30 June 2008 was 111 283 139 ordinary shares (2007: 91 841 371 ordinary shares).

42. COMPARATIVE FIGURES

No changes have been made to prior year comparatives.

43. EVENTS AFTER BALANCE SHEET DATE

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

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

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

Company balance sheet

as at 30 June 2008

R million	Notes	Company 2008	Company 2007
ASSETS			
Investments in subsidiaries	1	**2 152**	1 728
Loan to share incentive trust	2	**217**	154
Cash and cash equivalents	3	**18**	21
Total assets		**2 387**	1 903
EQUITY			
Capital and reserves			
Share capital and share premium	4	**1 716**	1 708
Other reserves		**278**	248
Retained earnings		**269**	(184)
Total equity		**2 263**	1 772
LIABILITIES			
Trade and other payables		**122**	131
Current income tax liabilities		**2**	–
Total liabilities		**124**	131
Total liabilities and equity		**2 387**	1 903

Company income statement

for the year ended 30 June 2008

R million	Company 2008	Company 2007
Investment income	**875**	540
Marketing and administration expenses	**(18)**	(1)
Net impairment of investment in subsidiaries	**(113)**	(218)
Profit before taxation	**744**	321
Taxation	**(30)**	(33)
Profit for the year	**714**	288

Company statement of changes in equity

for the year ended 30 June 2008

R million	Share capital	Share premium	Retained earnings	Share-based payment reserve	Hedging reserve	Total
30 June 2007						
Balance at 1 July 2006	1	1 715	(226)	200	–	1 690
Net profit for the year	–	–	288	–	–	288
Dividends paid	–	–	(254)	–	–	(254)
Movement in share-based payment reserve	–	–	–	48	–	48
Balance at 30 June 2007	1	1 715	(192)	248	–	1 772
30 June 2008						
Balance at 1 July 2007	**1**	**1 715**	**(192)**	**248**	**–**	**1 772**
Net profit for the year	**–**	**–**	**713**	**–**	**–**	**713**
Dividends paid	**–**	**–**	**(252)**	**–**	**–**	**(252)**
Movement in share-based payment reserve	**–**	**–**	**–**	**30**	**–**	**30**
Balance at 30 June 2008	**1**	**1 715**	**269**	**278**	**–**	**2 263**

Company cash flow statement

for the year ended 30 June 2008

R million	Notes	Company 2008	Company 2007
Cash flow from operating activities		**811**	632
Cash utilised by operations	5.1	**(27)**	125
Dividends received		**865**	536
Interest received		**1**	4
Taxation paid	5.2	**(28)**	(33)
Cash flow from investing activities		**(562)**	(358)
Increase in investment in subsidiary	5.3	**(507)**	(411)
(Increase)/decrease in loan to share incentive trust	5.4	**(55)**	53
Cash flow from financing activities		**(252)**	(254)
Dividends paid to equity holders		**(252)**	(254)
Net increase/(decrease) in cash and cash equivalents		**(3)**	20
Cash and cash equivalents at beginning of year		**21**	1
Cash and cash equivalents at end of year	3	**18**	21

Notes to the annual financial statements

for the year ended 30 June 2008

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	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
Discovery Life Limited	**1 016**	1 016	**100**	100	**1 294**	1 289	**3**	–
Discovery Health (Proprietary) Limited	*****	*	**100**	100	**180**	156	**118**	130
Vitality Healthstyle (Proprietary) Limited	******	**	**100**	100	**6**	5	**–**	–
Discovery Life Investment Services (Proprietary) Limited	**3**	–	**100**	100	**3**	–	**–**	–
Discovery Life Collective Investments (Proprietary) Limited	**15**	–	**100**	–	**15**	–	**–**	–
Destiny Health Inc[1]	**1 121**	963	**98**	98	**33**	75	**–**	–
Discovery Offshore Holdings Limited[2]	**877**	547	**100**	100	**621**	203	**–**	–
					2 152	1 728	**121**	130

* *Issued ordinary capital and shares at cost are R1 000.*

** *Issued ordinary capital and shares at cost are R1.*

(1) *Incorporated in the United States of America.*

(2) *Incorporated in England and Wales.*

(3) *Investments in subsidiaries includes cost, less impairments and the value of share options issued to subsidiary staff.*

(4) *The amount owing to a subsidiary are included in the balance sheet with current liabilities.*

R million	**Company 2008**	Company 2007
2. LOAN TO SHARE INCENTIVE TRUST		
Loan to share incentive trust	**154**	207
Increase in loan	**109**	–
Repayment on delivery of shares	**(54)**	(53)
Interest receivable	**8**	–
	217	154

The loan will be repaid on delivery of the shares under the share incentive scheme.
Refer to Group note 32.

R million	**Company 2008**	Company 2007
3. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**18**	5
Short-term deposits	**–**	16
	18	21

R million	**Company 2008**	Company 2007
4. SHARE CAPITAL AND SHARE PREMIUM		
Number of shares in issue	**591 953 180**	591 953 180
Share capital (R million)	**1**	1
Share premium (R million)	**1 715**	1 715
Total	**1 716**	1 716

The total authorised number of ordinary shares is 1 billion (2007: 1 billion) with a par value of 0.1 cents per share.

R million	Company 2008	Company 2007

5. CASH FLOW INFORMATION

5.1 Cash utilised by operations

Profit/(loss) before taxation	**744**	321
Adjusted for:		
Investment income	**(875)**	(540)
Non-cash items:		
Impairment of investment in subsidiaries	**113**	218
Working capital changes:		
Trade and other payables	**(9)**	126
	(27)	125

5.2 Taxation paid

Taxation charged for the year in the income statement	**(30)**	(33)
Balance at end of year	**2**	–
	(28)	(33)

5.3 Increase in investment in subsidiaries

Balance at the beginning of the year	**1 728**	1 487
Impairment of investment in subsidiaries	**(113)**	(218)
Share-based payment expense in respect of subsidiaries	**30**	48
Balance at the end of the year	**(2 152)**	(1 728)
Increase in investment in subsidiaries	**(507)**	(411)

5.4 (Increase)/decrease in loan to share incentive trust

Balance at the beginning of the year	**154**	207
Interest receivable	**8**	–
Balance at the end of the year	**(217)**	(154)
	(55)	53

6. CONTINGENCIES

Discovery Holdings Limited has provided a guarantee in favour of HSBC Bank in the amount of US$20 million for the working capital facility of Destiny Health Inc.

Discovery Holdings Limited has also provided the following guarantees:

– In terms of the alliance agreement with Guardian Life Insurance Company ("GLIC"), Discovery Holdings Limited has guaranteed the obligations of Destiny to GLIC in terms of this agreement.

– In terms of the shareholders agreement between Discovery Offshore Holdings Limited, The Prudential Assurance Company Limited and Prudential Health Limited, Discovery Holdings Limited has guaranteed the obligations of Discovery Offshore Holdings Limited to The Prudential Assurance Company Limited and Prudential Health Limited in terms of this agreement.

– Discovery Health provides certain administration and ancillary services to PruHealth in terms of the Insurance Intermediary Services agreement. Discovery Holdings Limited has guaranteed the obligations of Discovery Health in terms of this agreement.

– In terms of the agreement with Aegon, Discovery Holdings Limited has guaranteed the obligations of Destiny to Stonebridge Life Insurance Company.

Directorate

REMUNERATION AND FEES

Payments to directors for the year ended 30 June 2008 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	**Total 2008**
Executive						
A Gore	–	1 886	344	283	126	**2 639**
NS Koopowitz	–	2 371	340	119	74	**2 904**
HP Mayers	–	2 024	341	405	136	**2 906**
A Pollard	–	1 745	416	131	97	**2 389**
JM Robertson	–	1 603	267	327	33	**2 230**
B Swartzberg	–	1 635	276	167	38	**2 116**
SD Whyte	139	–	342	237	1 504	**2 222**
Subtotal	139	11 264	2 326	1 669	2 008	**17 406**
Non-executive						
MI Hilkowitz (Israel)	627	–	–	–	–	**627**
Dr BA Brink[2]	187	–	–	–	–	**187**
P Cooper	170	–	–	–	–	**170**
Dr NJ Dlamini	312	–	–	–	–	**312**
SB Epstein	387	–	–	–	–	**387**
Dr TV Maphai	187	–	–	–	–	**187**
AL Owen	409	–	–	–	–	**409**
SE Sebotsa	235	–	–	–	–	**235**
T Slabbert[4]	141	–	–	–	–	**141**
SV Zilwa	347	–	–	–	–	**347**
LL Dippenaar	183	–	–	–	–	**183**
JP Burger[3]	162	–	–	–	–	**162**
PK Harris	93	–	–	–	–	**93**
Subtotal	3 440	–	–	–	–	**3 440**
Total	3 579	11 264	2 326	1 669	2 008	**20 846**
Less: paid by subsidiaries	(3 579)	(11 264)	(2 326)	(1 669)	(2 008)	**(20 846)**
Paid by holding company	–	–	–	–	–	–

REMUNERATION AND FEES *(continued)*

Payments to directors for the year ended 30 June 2007 for services rendered are as follows:

R'000	Services as directors	Basic salary	Performance related	Provident fund contributions	Other benefits[1]	Total 2007
Executive						
A Gore	–	1 770	1 523	264	116	3 673
NS Koopowitz	–	2 000	1 504	99	46	3 649
HP Mayers	–	1 665	1 506	333	131	3 635
JM Robertson	–	1 361	1 160	278	31	2 830
B Swartzberg	–	1 527	1 220	156	35	2 938
SD Whyte	–	1 623	466	125	121	2 335
Subtotal	–	9 946	7 379	1 255	480	19 060
Non-executive						
Dr BA Brink[2]	163	–	–	–	–	163
JP Burger[3]	312	–	–	–	–	312
LL Dippenaar	302	–	–	–	–	302
Dr NJ Dlamini	266	–	–	–	–	266
SB Epstein	396	–	–	–	–	396
PK Harris[3]	138	–	–	–	–	138
MI Hilkowitz	396	–	–	–	–	396
Dr TV Maphai	138	–	–	–	–	138
SE Sebotsa[4]	213	–	–	–	–	213
SV Zilwa	250	–	–	–	–	250
Subtotal	2 574	–	–	–	–	2 574
Total	2 574	9 946	7 379	1 255	480	21 634
Less: paid by subsidiaries	(2 574)	(9 946)	(7 379)	(1 255)	(480)	(21 634)
Paid by holding company	–	–	–	–	–	–

(1) "Other benefits" comprises medical aid contributions, travel and other allowances.

(2) Directors fees for services rendered by Dr BA Brink are paid to Anglo American South Africa Limited.

(3) Directors fees for services rendered by JP Burger are paid to FirstRand Limited. Directors fees for services rendered by LL Dippenaar for the period 1 July 2006 to 31 December 2006 were paid to FirstRand Limited.

(4) Directors fees for services rendered by SE Sebotsa in the prior year were paid to WDB Holdings (Pty) Ltd. Directors fees for services rendered by T Slabbert are paid to WDB Holdings (Pty) Ltd.

The executive directors participate in group share incentive schemes. Their participation is subject to the approval of the Discovery remuneration committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

Directorate (continued)

DIRECTORS' INTERESTS

According to the Register of Directors' interests, maintained by Discovery in accordance with the provisions of section 140A of the Companies Act, directors of Discovery have disclosed the following interest in the ordinary shares of the company at 30 June:

	Direct beneficial	Indirect beneficial	**Total 2008**	Total 2007
Dr BA Brink	30 000	–	**30 000**	25 000
LL Dippenaar	–	–	**–**	565 473
Dr NJ Dlamini	–	206 572	**206 572**	203 351
SB Epstein	34 750	–	**34 750**	34 750
A Gore	1 181 962	54 644 046	**55 826 008**	47 268 400
PK Harris	–	–	**–**	2 332 296
NS Koopowitz	750 324	1 922 763	**2 673 087**	1 925 892
Dr TV Maphai	149	1 140 935	**1 141 084**	1 123 105
HP Mayers	542 806	7 874 497	**8 417 303**	6 176 010
A Pollard	2 680 395	–	**2 680 395**	–
JM Robertson	1 123 541	3 691 893	**4 815 434**	3 935 973
B Swartzberg	4 353 322	24 763 265	**29 116 587**	22 460 746
SD Whyte	–	–	**–**	2 412 056
SV Zilwa	–	206 800	**206 800**	202 900
P Cooper	55 076	55 016	**110 092**	–
	10 752 325	94 505 787	**105 258 112**	88 665 952

SHARE OPTIONS

Outstanding shares under options offered to and accepted by directors in terms of the share incentive schemes are as follows:

Discovery share incentive scheme	Outstanding shares	Strike price cents	Strike date
A Gore	250 000	1 440	30/09/2008
NS Koopowitz	250 000	1 440	30/09/2008
HP Mayers	250 000	1 440	30/09/2008
A Pollard	200 000	1 440	30/09/2008
JM Robertson	250 000	1 440	30/09/2008
B Swartzberg	250 000	1 440	30/09/2008

Shareholders' information
for the year ended 30 June 2008

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Analysis of shareholders
for the year ended 30 June 2008

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	21 882	85.61	3 494 481	0.59
1 001 – 10 000 shares	2 629	10.28	8 070 142	1.36
10 001 – 100 000 shares	725	2.84	23 563 691	3.98
100 001 – 1 000 000 shares	253	0.99	85 042 632	14.37
1 000 001 shares and over	71	0.28	471 782 234	79.70
	25 560	**100.00**	**591 953 180**	**100.00**

Distribution of shares	Number of shareholders	%	Number of shares	%
Banks	120	0.47	22 243 297	3.76
Close corporations	157	0.61	611 886	0.10
Empowerment	4	0.02	36 461 157	6.16
Endowment funds	41	0.16	1 655 270	0.28
Individuals	21 500	84.12	29 678 698	5.01
Insurance companies	49	0.19	12 439 644	2.10
Investment companies	41	0.16	32 244 350	5.45
Medical aid scheme	20	0.08	634 099	0.11
Mutual funds	270	1.06	72 087 171	12.18
Nominees and trusts	2 175	8.51	49 970 113	8.44
Other corporations	270	1.06	18 772 625	3.17
Pension funds	322	1.26	90 283 213	15.25
Private companies	571	2.23	63 079 886	10.66
Public companies	19	0.07	148 271 729	25.05
Share trusts	1	0.00	13 520 042	2.28
	25 560	**100.00**	**591 953 180**	**100.00**

Public/non-public shareholders	Number of shareholders	%	Number of shares	%
Non-public shareholders	**18**	**0.07**	**303 287 479**	**51.24**
Directors of the company holdings	12	0.05	105 258 112	17.78
Strategic Holdings (more than 10%)	1	0.00	148 048 168	25.01
Empowerment	4	0.02	36 461 157	6.16
Share trusts	1	0.00	13 520 042	2.29
Public shareholders	**25 542**	**99.93**	**288 665 701**	**48.76**
	25 560	100.00	591 953 180	100.00

Beneficial shareholders holding of 5% or more	Number of shares	%
RMB Holdings Limited	148 048 168	25.01
Gore, A	55 826 008	9.43
Public Investment Corporation	47 885 881	8.09

Administration
for the year ended 30 June 2008

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
2146

PO Box 786722
Sandton
2146

Telephone (011) 529 2888
Fax (011) 539 2958
e-mail: AskTheCFO@discovery.co.za

SECRETARY
MJ Botha

AUDITORS
PricewaterhouseCoopers Inc.

STATUTORY VALUATOR
RD Williams

TRANSFER SECRETARIES
Computershare Investor Services (Pty) Limited
(Registration number 2004/003647/07)
Ground Floor
70 Marshall Street
Johannesburg
2001

PO Box 61051
Marshalltown
2017

SPONSORS
(In terms of 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	4 December 2008

REPORTS

Interim results	February
Annual results	September
Annual report	November

Dates are subject to change

Notice of annual general meeting of shareholders

DISCOVERY HOLDINGS LIMITED

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

Notice is hereby given that the ninth annual general meeting of the shareholders' of Discovery Holdings Limited ("the company") will be held in the Auditorium, Ground Floor, 155 West Street, Sandton, on Thursday, 4 December 2008 at 09:00 for the following purposes:

ORDINARY BUSINESS

1. To receive, consider and approve the annual financial statements for the year ended 30 June 2008 and the report of the directors and the auditors thereon.
2. To confirm the appointment of Mr AL Owen as a director on 6 December 2007.
3. To confirm the appointment of Ms T Slabbert as a director on 1 January 2008.
4. To confirm the appointment of Mr P Cooper as a director on 1 January 2008.
5. To elect a director in place of Ms SE Sebotsa who retires in accordance with the company's Articles of Association, but, being eligible, offers herself for re-election.
6. To elect a director in place of Dr TV Maphai who retires in accordance with the company's Articles of Association, but, being eligible, offers himself for re-election.

   A brief curriculum vitae of each of the directors mentioned above can be found on pages 23 and 24 of the annual report to which this notice forms part.

7. To confirm the directors' fees paid by the company for the year ended 30 June 2008 as per the notes to the annual financial statements.
8. To confirm the re-appointment of PricewaterhouseCoopers Inc. as auditors and Mr J Awbrey as the individual designated auditor until the forthcoming annual general meeting.
9. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 2008.
10. To approve special resolution 1 described below.
11. To transact such other business as may be transacted at an annual general meeting.

SPECIAL RESOLUTION 1

"**RESOLVED THAT,** the Company and/or any of its subsidiaries be and it is hereby authorised, by way of a general approval, to acquire ordinary shares issued by the Company, in terms of Sections 85(2), 85(3) and 89 of the Companies Act No. 61 of 1973, as amended, and in terms of the Listings Requirements of the JSE Limited (the "JSE Listings Requirements"), provided that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter-party (reported trades are prohibited);
- this general authority shall be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- an announcement will be published as soon as the Company has acquired ordinary shares constituting, on a cumulative basis, 3% of the initial number of ordinary shares in issue and for each 3% in aggregate of the initial number acquired thereafter, in compliance with paragraph 11.27 of the JSE Listings Requirements;
- acquisitions of ordinary shares in aggregate in any one financial year may not exceed 20% of the Company's issued ordinary share capital as at the date of the grant of this general authority;
- ordinary shares may not be acquired at a price greater than 10% above, the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the five business days immediately preceding the date of repurchase of such ordinary shares;
- the Company has been given authority by its Articles of Association;
- at any point in time, the Company may only appoint one agent to effect any repurchase on the Company's behalf;

- the Company undertaking that it will not enter the market to repurchase the Company's securities until the Company's sponsor has provided written confirmation to the JSE regarding the adequacy of the Company's working capital in accordance with Schedule 25 of the JSE Listings Requirements; the Company remaining in compliance with the shareholder spread requirements of the JSE Listings Requirements; and the Company not repurchasing any shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements; unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and

  before entering the market to effect the general repurchase, the directors, having considered the effects of the repurchase of the maximum number of ordinary shares in terms of the aforegoing general authority, will ensure that for a period of 12 (twelve) months after the date of the general repurchase:

  – the Company, and all of its subsidiaries, will be able, in the ordinary course of business, to pay its debts;
  – the Company and the Group's assets, fairly valued in accordance with the accounting policies used in the latest audited consolidated annual financial statements, will exceed the liabilities of the Company and the Group for a period of 12 (twelve) months after the date of the general repurchase;
  – the Company's, and all of its subsidiaries', share capital and reserves will be adequate for ordinary business purposes; and
  – the available working capital of the Company, and all of its subsidiaries, will be adequate for the purposes of the business of the Company, and all of its subsidiaries.

Other disclosure in terms of the JSE Listings Requirements Section 11.26

The JSE Listings Requirements require the following disclosure, some of which are elsewhere in the annual report of which this notice forms part as set out below:

Directors and management – page 23 to 25;
Major shareholders of the Company – page 146;
Directors' interests in securities – page 144; and
Share capital of the Company – page 117.

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on page 23 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Directors' responsibility statement

The directors, whose names are given on page 23 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

Material change [11.26 (b) (iii)] or no material changes to report

Other than the facts and developments reported on in the annual report, there have been no material changes in the financial position of the Company and its subsidiaries since the date of signature of the audit report and the date of this notice.

Reason and effect

The reason and effect for special resolution 1 is to authorise the Company and/or its subsidiary companies by way of a general authority to acquire its own issued shares on such terms, conditions and in such amounts as determined from time to time by the directors of the Company subject to the limitations set out above.

Statement of board's intention [11.26 (c)]

The directors of the Company have no specific intention to effect the provisions of special resolution number 1 but will however, continually review the Company's position, having regard to prevailing circumstances and market conditions, in considering whether to effect the provisions of special resolution number 1."

VOTING AND PROXIES

Shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the registered office of the company/company's transfer secretaries, Computershare Investor Services (Pty) Limited at Ground Floor, 70 Marshall Street, Johannesburg, 2001 or PO Box 61051, Marshalltown, 2107 by no later than 09:00 on Tuesday, 2 December 2008.

On a show of hands, every shareholder of the company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the company shall have one vote for every share held in the company by such shareholder.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own name" registration, should contact their Central Security Depositary Participant ("CSDP") or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

By order of the board

MJ Botha
Company Secretary

Form of proxy

DISCOVERY HOLDINGS LIMITED
(Registration number: 1999/007789/06)
ISIN: ZAE000022331
Share code: DSY
("Discovery" or "the Company")

For use by shareholders, who have not dematerialised their shares or who have dematerialised their shares but with own name registration ("entitled shareholders"), at the annual general meeting to be held at 09:00 on Thursday, 4 December 2008, in the Auditorium, Ground Floor, 155 West Street, Sandton.

Shareholders who have not dematerialised their shares, other than those shareholders who have dematerialised their shares with own name registration should contact their CSDP or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

FORM OF PROXY FOR THE NINTH ANNUAL GENERAL MEETING OF DISCOVERY HOLDINGS LIMITED

I/We ____ (name in block letters)

of ____ (address)

being a shareholder of Discovery Holdings Limited and entitled to ____________________ votes do hereby appoint:

1. of ____ or failing him
2. of ____ or failing him
3. the chairman of the Company, or failing him, the chairman of the annual general meeting as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the Company to be held in the Auditorium, Ground Floor, 155 West Street, Sandton, on Thursday, 4 December 2008 at 09:00 for the following purposes:

I/We desire to vote as follows:

	In favour*	Against*	Abstain*
1. To receive, consider and approve the annual financial statements for the year ended 30 June 2008			
2. To confirm the appointment of director Mr AL Owen			
3. To confirm the appointment of director Ms T Slabbert			
4. To confirm the appointment of director Mr P Cooper			
5. To re-elect director Ms SE Sebotsa			
6. To re-elect director Dr TV Maphai			
7. To confirm the directors' fees paid by the company for the year ended 30 June 2008			
8. To confirm the re-appointment of PricewaterhouseCoopers Inc. as auditors until the forthcoming annual general meeting			
9. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 2008			
10. Special Resolution 1: General authority to repurchase shares			

*Note: Insert an "X" in the relevant spaces above according to the manner in which you wish your votes to be cast. However, if you wish to cast your votes in respect of a lesser number of shares than you own in Discovery, insert the number of shares held in respect of which you desire to vote (see note 6 overleaf).

Signed at ______________________________ on ______________________________ 2008

Signature of shareholder ____

Assisted by (where applicable) (state capacity and full name) ______________________________

Please read the notes appearing on the reverse hereof

Notes to form of proxy

1. Only shareholders who have dematerialised their shares or who have dematerialised their shares and registered them in their own name ("certificated or own name dematerialised shareholders") may complete a form of proxy or alternatively attend the meeting.
2. Certificated shareholders whose shares are not registered in their own names but in the name of another person, eg, a nominee, may NOT complete a form of proxy nor attend the meeting unless a form of proxy is issued to them by the registered shareholder.
3. A certificated or own name dematerialised shareholder may insert the name of a proxy or the name of two alternate proxies of his/her choice in the space provided, with or without deleting "the chairman of the annual general meeting". Such shareholder must initial any such deletion. The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
4. A certificated or own name dematerialised shareholder's instructions to the proxy must be indicated by the insertion of an X in the appropriate space/s provided (or, if such shareholder wishes to cast his/her votes in respect of a lesser number of shares than he/she owns in the Company, he/she must insert the number of shares held in respect of which he/she wishes to vote). Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all such shareholder's votes exercisable thereat but, where the proxy is the chairman, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A certificated or own name dematerialised shareholder or his/her proxy is not obliged to use all the votes exercisable by such shareholder or by his/her proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the total of the votes exercisable by the shareholder or by his/her proxy.
5. Certificated or own name dematerialised shareholders are advised that the Company has appointed Computershare as the shareholder communications consultant. To be effective, forms of proxy must be received by Computershare Investor Services (Pty) Limited at Ground Floor, 70 Marshall Street, Johannesburg, 2001 or PO Box 61051, Marshalltown, 2107, by no later than 09:00 on Tuesday, 2 December 2008.
6. The completion and lodging of this form of proxy will not preclude the relevant certificated or own name dematerialised shareholder from attending the annual general meeting and speaking and voting in person thereat instead of the proxy should such shareholder wish to do so.
7. The chairman of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
8. Any alteration to this form of proxy other than a deletion of alternatives must be initialled by the signatories.
9. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless recorded by the company or waived by the chairman.
10. Where there are joint holders of shares:
    - 10.1 any holder may sign the form of proxy; and
    - 10.2 the vote of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
11. Shareholders who have dematerialised their shares and registered them in a name other than their own name ("dematerialised shareholders") and who wish to attend the meeting in person may only do so by timeously requesting their Central Security Depositary Participant ("CSDP") or broker to issue them with a letter of representation in terms of the custody agreements entered into with the registered holder.
12. Dematerialised shareholders who do not wish to attend the meeting in person must contact their CSDP or broker and provide them timeously with their voting instructions, in the manner and cut-off time stipulated by their CSDP or broker.

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