

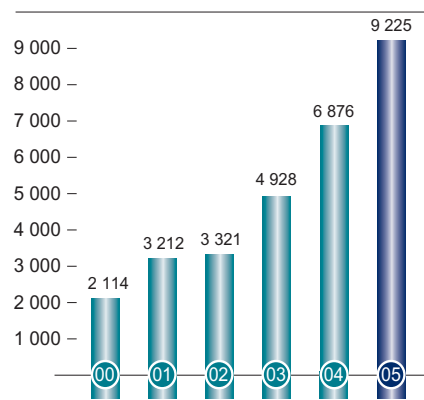


Discovery

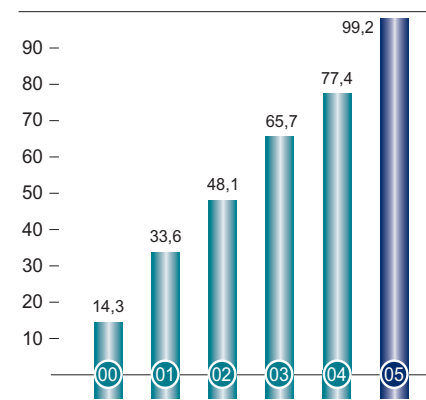


Audited financial results for the year ended 30 June 2005 and announcement of BEE transaction

Embedded value (Rm)



Diluted headline earnings per share before abnormal items (cents)



www.discovery.co.za

Financial highlights

- Diluted HEPS +28%
- New business annualised premium income +35% to R4,3 billion
- Diluted embedded value per share +32% to R17,03
- Discovery Life profit +55% to R421 million
- Operating profit of SA businesses exceeds R1 billion

Strategic highlights

- Successful launch of PruHealth in the UK
- DiscoveryCard >200 000 cards in nine months
- Destiny Health reaches 60 000 lives mark
- Discovery Health now services over 1,8 million people

Introduction

The year under review has been the most active year in Discovery's history and overall a successful one. Discovery's innovative approach and the strong leadership positions it commands in the markets in which it operates, enables it to focus relentlessly on innovation resulting in organic growth. The year under review has been the most complex in the Group's history with a significant dual focus on new initiatives across multiple industries and geographies, as well as its existing businesses. New initiatives that commenced during the year include the launch of PruHealth in the UK, the launch of the DiscoveryCard, the commencement of a joint venture between Discovery Life and the Prudential plc in the UK, the entry of Discovery Life into the investment and retirement funding market, Destiny's entry into the Washington DC market, the transitioning of Destiny's back-office to South Africa, and the execution of a Black Economic Empowerment deal.

The results have been pleasing, with growth and progress in existing businesses and the creation of new businesses that offer excellent prospects for future growth.

Headline earnings increased by 32% to R536 million (2004: R405 million), despite considerable start-up costs associated with the roll-out of PruHealth, its UK venture. For the first time in Discovery's history, operating profit of the local businesses exceeded R1 billion. Annualised recurring new business production exceeded expectation, increasing by 35% to R4,34 billion (2004: R3,21 billion). Embedded value increased by 34% to R9,22 billion (2004: R6,88 billion), driven by strong new business and enhanced efficiencies.

Discovery Health

Discovery Health had a strong year in terms of new business growth, infrastructural development and positioning, yet its profitability grew modestly. Discovery Health's fundamental role is to keep access to quality health care affordable – its competitive position is determined by this. Toward this end, the combination of scale, sophistication and infrastructure provides it with significant advantage in terms of distribution, negotiating strength with hospitals and doctors and the ability to contribute and adapt to the continually-evolving regulatory environment. Discovery Health and the Discovery Health Medical Scheme ("DHMS") have created a commanding leadership position, with the size of DHMS now 86% of the combined size of its next nine competitors. The combined effect of this scale, together with the sound working of its products, has enabled it to offer premium products and services at a discount to the market. This manifested in strong growth, with 170 000 members joining Discovery Health over the period, amounting to an increase in new business of 31% to R2,78 billion (2004: R2,12 billion).

Operating profit grew by 8% to R563 million (2004: R522 million), reflecting the combined effect of investment in the infrastructure required for the rapid, broad-based new business growth, as well as the lack of any reinsurance profits which were present in the previous period. Given the broad-based nature of the new business flow and the need for operational excellence, a significant focus was placed on Discovery Health's service capabilities over the period, resulting in the best service levels in its history, despite the increase in volumes.

Its relative size, product range and operational sophistication, and a market share of 26%, position Discovery Health uniquely for strong growth going forward. In addition, from a policy perspective Discovery Health is playing a leadership role in the industry in helping to build a robust private health care system that is affordable and covers more people.

Discovery Life

Discovery Life's performance exceeded expectation. Operating profit grew by 55% to R421 million (2004: R271 million). Annualised recurring new business premiums increased 18% to R629 million (2004: R535 million). Embedded value of in-force increased by 65% to R1 832 million (2004: R1 107 million).

Discovery Life has positioned itself particularly well in an industry that requires scale and strength, but that, through the effects of consumerism, faces a liability in its legacy of old products covering large blocks of policyholders. Discovery Life benefits from the scale, brand and distribution of the broader Discovery, but can compete in the traditional protection and investment markets based on its new-generation products and principles.

In the year under review, Discovery Life continued to capitalise on its leadership position in the pure protection market, transacting significant volumes of new business. In addition to the quantum of

business, its quality is significantly ahead of expectation. Average premiums per policy continue to be significantly larger than the industry average, and mortality and morbidity experience is materially better than expected. The combination of these factors has driven the increase in profitability and embedded value.

Over the last two years, Discovery Life has been developing products and infrastructure to enter the long-term investment market. The basis of this strategy is Discovery's view that existing products offer policyholders poor value for money, and expose them to long-term risks that they are not in a position to carry, with the effect that policyholder expectations are frequently not met. The manifestation of this strategy was the launch in June of the Discovery Life retirement Optimiser – a sophisticated suite of retirement products focused on ensuring the certainty and efficiency of retirement funding. The recent spate of Pension Fund Adjudicator rulings against existing products reinforces Discovery Life's strategy and has further created a market that is particularly receptive to change.

During the period, Discovery Life continued development of its joint initiative with the Prudential plc wherein its pure protection products will enter the UK insurance market in 2006.

Vitality and the DiscoveryCard

Vitality's performance over the period was pleasing. While operating profit dropped by 24% to R38 million (2004: R50 million), the new business annual premium income increased by 50% to R93 million. The effect that Vitality has on all of Discovery's businesses dwarfs its profitability and therefore focus continues to be applied towards furthering the value proposition of Vitality through continual improvement in its tools, infrastructure and the partners that back it. During the year significant analysis was undertaken illustrating the impressive impact Vitality has on reducing morbidity, mortality, and the consumption of health care, while increasing the persistency of all of Discovery's businesses.

The reduction in Vitality's profitability reflects two factors, both of which are associated with growth going forward:

- The significant increase in new business, combined with the up-front nature of Vitality commission, created an element of new business strain; and
 - Vitality incurred set-up costs with the launch of the DiscoveryCard.
- The DiscoveryCard, Discovery's new-generation credit card, was launched during the year. Despite initial teething problems in the delivery mechanism, the roll-out has been particularly successful with in excess of 250 000 cards now in issue. The Card's role is a clear one: providing Discovery members with a tangible and immediate reason to better manage their health. From a strategic perspective, the Card will form a capability, that will be used by the other Discovery businesses. For example, during September 2005, the Health Plan Account was launched giving Discovery Health members a "super bank account" for out-of-pocket medical expenses. The Health Plan Account earns super interest based on Vitality status and integrates into the health care system.

Destiny Health

The performance of Destiny Health ("Destiny") was disappointing. While new business increased 64% to R809 million (2004: R494 million), Destiny generated an operating loss of R87 million for the year, an amount in excess of that expected. Destiny's interim performance exceeded expectation, generating a maiden profit in January – in line with its stated objective. However, two factors led Destiny to generate losses for the second half of the year:

- During the period, the full back-office functionality of Destiny was successfully migrated back to Discovery in South Africa, giving Destiny increased sophistication, robustness and a platform that is significantly more efficient than can be achieved in the US. However, Destiny did not adequately address the duplication of costs incurred during the transition period, leading to management expenses that were artificially high. This has now been addressed.
- Destiny geared up for expansion into new markets with its joint venture partner, the Guardian Life Insurance Company of America. However, the expansion is occurring later than expected leading to costs incurred without the concomitant revenue. In addition, because of an unusually dominant Blue Cross plan in Illinois, loss ratios in the Illinois market are significantly higher than in the other markets that Destiny is currently in, and those it is planning to enter. This has exacerbated the financial impact of a slower than expected expansion rate. This is being addressed with Destiny expanding into four markets in Texas – Dallas, Houston, San Antonio and Austin – during October 2005.

Destiny is uniquely positioned to capitalise on the rapidly emerging US consumer-driven health insurance market, however, it simply moved too slowly during the second half of the year to do so. This is being addressed as a matter of urgency. It is anticipated that a significantly more aggressive expansion strategy will be pursued in the short term. This is currently under discussion with its partners.

PruHealth

During the period, PruHealth, Discovery's 50% joint venture with the Prudential plc, was launched into the UK private medical insurance market.

The progress of PruHealth has been in line with expectation. Discovery incurred start-up and operating costs of R148 million, in line with that set out in the business plan. The annualised recurring new business production amounted to R35 million comprising 10 000 new lives. More importantly, at this embryonic stage, PruHealth has positioned itself particularly well, combining the flexibility and innovativeness of a start-up with the scale and credibility offered by the Prudential:

- The receptivity of the environment to the concept of consumer-engaged health care has been remarkably well received, and is entirely consistent with the environment's trends and government health policy. This has enabled PruHealth to take an intellectual leadership position, despite its size.
- The product range developed balances the Discovery model, incorporating a sophisticated and compelling Vitality structure, with price points that are particularly competitive.
- The prices achieved with hospital groups and Vitality partners ensure a sustainable competitive position, and exclusivity with the key Vitality partners creates important protection against competitor replication.
- The infrastructure built utilises the back-office capability of Discovery, resulting in a robust and sophisticated platform in an environment far less expensive than that of its competitors.

The challenge going forward is to capitalise on the opportunity presented. The short-term focus is to build and leverage the intermediary and direct-to-consumer distribution channels. In particular, significant momentum is building within the broker channels, indicating a tangible positive outlook for the business.

Black Economic Empowerment

During the year, significant effort was applied to transformation, the Financial Services Charter and the introduction of a BEE partner. Discovery has made significant progress in all of the key areas of the Charter and in particular with Employment Equity.

In terms of ownership, Discovery has settled on a three-tier structure that reflects its aspirations and the requirements of the environment in which it operates. The structure comprises:

- WDB Investment Holdings, as the lead corporate partner with broad-based shareholders bringing to Discovery insight into issues germane to the social issues that Discovery impacts upon across its businesses.
- The Discovery Foundation which will focus on creating a step change in key human resources within the health care system. Initial focus will be on the financing, development and retention of black medical specialists.
- The empowerment of Discovery's most valuable asset – its people. Every member of Discovery's staff will be issued shares vesting over a stated period. The allocation will be weighted heavily, with previously disadvantaged people receiving in excess of 90% of the shares issued.

The combination of this transaction with the existing empowerment shareholding held through FirstRand, will bring black ownership of Discovery above 25%.

Prospects

All of Discovery's businesses are well positioned in the markets in which they operate. Given the year's focus on new initiatives, Discovery is confident of strong growth going forward.

By order of the board

LL Dippenaar
Chairman
12 September 2005

A Gore
Chief Executive Officer

Directors

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

*Executive **Appointed 17 February 2005

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited
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Ground Floor, 70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

Sponsors

Rand Merchant Bank (A division of FirstRand Bank Limited) Corporate Finance

Secretary and registered office
MJ Botha

155 West Street, Sandton, 2146
PO Box 786722, Sandton, 2146
Tel: (011) 529 2888 Fax: (011) 529 2958

Discovery Holdings Limited
(Registration number 1999/007789/06)
Share code: DSY ISIN code: ZAE 000022331

Income statement

for the year ended 30 June 2005

R million	Group 2005	Group 2004	% change
Gross income of Group	4 029	3 698	
Outward reinsurance premiums	(378)	(293)	
Net income	3 651	3 405	
Policyholder benefits	(841)	(1 078)	
Recoveries from reinsurers	262	237	
Net policyholder benefits	(579)	(841)	
Commissions	(715)	(576)	
Operating and administration expenses	(1 734)	(1 495)	
Vitality benefits	(412)	(314)	
Deferred acquisition costs	1	—	
Transfer from assets/liabilities arising from insurance contracts	574	529	
Profit from operations	786	708	11
Local operations	1 021	842	
Foreign operations	(235)	(134)	
Investment income	124	130	
Realised and unrealised investment gains and losses	157	68	
Fair value adjustment to liabilities arising from investment contracts	(122)	(77)	
Financing costs	(54)	(47)	
Foreign exchange loss	(8)	(62)	
Profit before taxation	883	720	23
Taxation	(307)	(299)	
Profit after taxation	576	421	37
Minority share of loss	9	(3)	
Net profit attributable to ordinary shareholders	585	418	40
Basic earnings per share (cents)			
– undiluted	112,6	83,0	36
– diluted	108,0	79,7	36
Headline earnings per share (cents)			
– undiluted	103,3	80,5	28
– diluted	99,2	77,4	28
Weighted number of shares in issue (000's)	519 188	504 051	
Diluted weighted number of shares (000's)	553 227	536 025	
Headline earnings			
Net profit attributable to ordinary shareholders	585	418	
Adjusted for realised profit on available-for-sale financial instruments net of CGT	(49)	(13)	
	536	405	32

Balance sheet

at 30 June 2005

R million	Group 2005	Group 2004
ASSETS		
Cash and cash equivalents	1 075	998
Government and public authority stocks		
– available-for-sale	146	130
– at fair value through profit and loss	40	52
Equity investments		
– available-for-sale	922	602
– at fair value through profit and loss	337	251
Investment in associate	4	2
	2 524	2 035
Loans and receivables	557	430
Deferred taxation	13	10
Assets arising from insurance contracts	1 881	1 318
Intangible assets	45	38
Equipment	196	201
Total assets	5 216	4 032
LIABILITIES AND SHAREHOLDERS' FUNDS		
LIABILITIES		
Current liabilities	896	578
Provisions	30	22
Taxation	17	43
Deferred taxation	323	128
Liabilities arising from insurance contracts	—	6
Liabilities arising from reinsurance contracts	31	36
Financial liabilities	577	716
– Investment contracts at fair value through profit and loss	483	400
– Borrowings at amortised cost	94	316
Total liabilities	1 874	1 529
Outside shareholders' interest	67	67
SHAREHOLDERS' FUNDS		
Share capital and share premium	1 336	1 276
Reserves	1 939	1 160
Total shareholders' funds	3 275	2 436
Total liabilities and shareholders' funds	5 216	4 032
Net asset value per share (cents)	620,0	474,6
Net number of shares in issue (000's)	528 240	513 287

Cash flow statement

for the year ended 30 June 2005

R million	Group 2005	Group 2004
Cash flow from operating activities	420	92
Cash generated by operations	575	337
Working capital changes	10	(119)
	585	218
Dividends received	23	14
Interest received	84	88
Interest paid	(93)	(14)
Taxation paid	(179)	(214)
Cash flow from investing activities	(216)	(504)
Investment purchases	(757)	(565)
Proceeds on disposal of investments	674	176
Purchase of equipment	(106)	(93)
Purchase of intangible assets	(30)	(26)
Decrease in loans receivable	3	4
Cash flow from financing activities	(134)	(39)
Proceeds from shares issued	71	878
Share issue costs written off against share capital	(1)	(30)
Dividends paid to Destiny Health preference shareholders	(1)	(2)
Minority share buy-back	(1)	(9)
Decrease in borrowings	(202)	—
Repayment of short-term loan	—	(876)
Net increase/(decrease) in cash and cash equivalents	70	(451)
Cash and cash equivalents at beginning of year	998	1 469
Effects of exchange rate changes on cash and cash equivalents	7	(20)
Cash and cash equivalents at end of year	1 075	998

Statement of changes in equity for the year ended 30 June 2005

R million	Share capital	Share premium	Investment reserve	Retained earnings	Translation reserve	Hedging reserve	Total
30 June 2004							
Balance at 1 July 2003	1	428	(4)	634	52	(14)	1 097
Issue of capital	*	877	—	—	—	—	877
Share issue expenses	—	(30)	—	—	—	—	(30)
Net profit for the period	—	—	—	418	—	—	418
Dividends paid to Destiny Health preference shareholders	—	—	—	(1)	—	—	(1)
Realised loss on minority share buy-back	—	—	—	(5)	—	—	(5)
Unrealised gains on investments transferred to income statement	—	—	69	—	—	—	69
Realised gains on investments transferred to income statement	—	—	(14)	—	—	—	(14)
Transfer to hedging reserve	—	—	—	—	—	8	8
Translation of foreign subsidiary	—	—	—	—	17	—	17
Balance at 30 June 2004	1	1 275	51	1 046	69	(6)	2 436
30 June 2005							
Balance at 1 July 2004	1	1 275	51	1 046	69	(6)	2 436
Issue of capital	*	61	—	—	—	—	61
Share issue expenses	—	(1)	—	—	—	—	(1)
Net profit for the period	—	—	—	585	—	—	585
Dividends paid to Destiny Health preference shareholders	—	—	—	(1)	—	—	(1)
Realised loss on minority share buy-back	—	—	—	(1)	—	—	(1)
Unrealised gains on investments transferred to income statement	—	—	(53)	—	—	—	(53)
Transfer to hedging reserve	—	—	—	—	—	9	9
Translation of foreign subsidiary	—	—	—	—	29	—	29
Balance at 30 June 2005	1	1 335	209	1 629	98	3	3 275

*Amount is less than R500 000.

Segmental information for the year ended 30 June 2005

R million	Health			Life	Vitality	Holdings	Total
	South Africa	United States of America	United Kingdom				
30 June 2005							
New business annualised premium income	2 776	809	35	629	93	—	4 342
Gross inflows under management	14 571	914	11	1 278	521	—	17 295
Income statement							
Gross income of Group	1 688	537	5	1 278	521	—	4 029
Outward reinsurance premiums	(3)	(53)	—	(322)	—	—	(378)
Net policyholder benefits	(4)	(349)	(3)	(223)	—	—	(579)
Commissions	—	(42)	(1)	(617)	(55)	—	(715)
Operating and administration expenses	(1 118)	(180)	(150)	(269)	(428)	(1)	(2 146)
Deferred acquisition costs	—	—	1	—	—	—	1
Transfer from assets/liabilities arising from insurance contracts	—	—	—	442	—	—	442
	563	(87)	(148)	289	38	(1)	654
Return on assets arising from insurance contracts	—	—	—	132	—	—	132
Profit from operations	563	(87)	(148)	421	38	(1)	786
Investment income and realised profits	—	—	—	—	—	—	159
Financing costs	—	—	—	—	—	—	(54)
Foreign exchange loss	—	—	—	—	—	—	(8)
Profit before taxation	—	—	—	—	—	—	883
Cash flow statement							
Cash generated by operations	691	(42)	(150)	25	52	(1)	575
Cash flow from financing activities	—	(194)	—	—	—	—	60
	—	(194)	—	—	—	—	(134)
30 June 2004							
New business annualised premium income	2 122	494	—	535	62	—	3 213
Gross inflows under management	12 550	534	—	858	403	—	14 345
Income statement							
Gross income of Group	2 057	380	—	858	403	—	3 698
Outward reinsurance premiums	(45)	(90)	—	(158)	—	—	(293)
Net policyholder benefits	(476)	(168)	—	(197)	—	—	(841)
Commissions	—	(39)	—	(510)	(27)	—	(576)
Operating and administration expenses	(1 014)	(189)	(28)	(251)	(326)	(1)	(1 809)
Transfer from assets/liabilities arising from insurance contracts	—	—	—	431	—	—	431
	522	(106)	(28)	173	50	(1)	610
Return on assets arising from insurance contracts	—	—	—	98	—	—	98
Profit from operations	522	(106)	(28)	271	50	(1)	708
Investment income and realised profits	—	—	—	—	—	—	121
Financing costs	—	—	—	—	—	—	(47)
Foreign exchange loss	—	—	—	—	—	—	(62)
Profit before taxation	—	—	—	—	—	—	720
Cash flow statement							
Cash generated by operations	655	(103)	(28)	(248)	62	(1)	337
Cash flow from financing activities	—	(12)	—	—	—	—	(27)

Embedded value statement

Table 1: Group embedded value at 30 June 2005

R million	Group 2005	Group 2004	% change
Shareholders' funds ⁽¹⁾	3 275	2 436	34
Value of in-force business before cost of capital	6 483	4 803	35
Cost of capital	(533)	(363)	47
Discovery Holdings embedded value	9 225	6 876	34
Number of shares (millions)	528,2	513,3	
Embedded value per share	R17,46	R13,40	30
Diluted number of shares (millions)	553,2	546,4	
Diluted embedded value per share ⁽²⁾	R17,03	R12,89	32

(1) Shareholders' funds include R1 881 million (June 2004: R1 318 million) in respect of assets under insurance contracts.
(2) The diluted embedded value per share is calculated by increasing the embedded value by the value of the loan to the Discovery Holdings share incentive trust, and by increasing the number of shares by both the number of outstanding shares relating to the redemption value of the Discovery Life preference shares, as well as by the number of shares issued to the share incentive trust which have not been delivered to participants.

Table 2: Value of in-force business at 30 June 2005

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	3 844	—	3 844
Life ⁽¹⁾	2 349	(517)	1 832
Destiny Health ⁽²⁾	290	(16)	274
Total	6 483	(533)	5 950

(1) The Life cost of capital is based on the capital adequacy requirement of R1 507 million (2004: R883 million) under the Financial Soundness Valuation basis.
(2) Figures for Destiny Health reflect Discovery's 97,67% shareholding in Destiny Health at 30 June 2005.

at 30 June 2004

R million	Value before cost of capital	Cost of capital	Value after cost of capital
Health and Vitality	3 194	—	3 194
Life	1 447	(340)	1 107
Destiny Health	162	(23)	139
Total	4 803	(363)	4 440

Table 3: Embedded value earnings for the year ended 30 June 2005

R million	Group 2005	Group 2004
Embedded value at end of period	9 225	6 876
Embedded value at beginning of period	6 876	4 928
Increase in embedded value	2 349	1 948
Net issue of capital	(60)	(847)
Dividends paid to Destiny Health preference shareholders	1	1
Transfer to hedging reserve	(9)	(8)
Embedded value earnings	2 281	1 094
Return on embedded value	33,2%	22,2%

Table 4: Components of embedded value earnings for the year ended 30 June 2005

R million	Group 2005	Group 2004	% change
Total profit from new business (at point of sale)	783	637	23
Profit from existing business	—	—	—
* Expected return	602	534	
* Change in methodology and assumptions ⁽¹⁾	307	(361)	
* Experience variances	363	230	
Acquisition costs	—	(5)	
PruHealth start-up costs	(120)	(28)	
Adjustment for minority interest in Destiny Health	4	(4)	
Adjustment for Guardian profit share in Destiny Health ⁽²⁾	(28)	(8)	
Foreign exchange rate movements	43	(67)	
Interest on loan capital	(50)	(41)	
Return on shareholders' funds ⁽³⁾	377	207	
Embedded value earnings	2 281	1 094	

(1) 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 in Table 5 below (for previous periods refer to previous embedded value statements).

(2) In terms of the agreement between Destiny Health and the Guardian Life Insurance Company of America, Guardian will share in 50% of the profits from Destiny Health's non-alliance business once the business written by Guardian reaches the contractual new member threshold. This is modelled to occur in June 2006. Based on Guardian's progress at 30 June 2005 towards achieving this target, the value attributed to Destiny Health's non-alliance business from 30 June 2006 has been reduced by 26,3% (June 2004: 6,8%) in the embedded value calculation.

(3) Return on shareholders' funds is the investment return on shareholders' funds after tax and management charges. Shareholders' funds include the assets under insurance contracts.

Table 5: Methodology and assumption changes for the year ended 30 June 2005

R million	Health and Vitality	Destiny Health	Life	Total
Modelling changes	—	(27)	(15)	(42)
Destiny Health quota share	—	12	—	12
Lapses ⁽¹⁾	14	(9)	(51)	(46)
Economic assumptions ⁽²⁾	(12)	—	69	57
Expenses ⁽³⁾	260	66	6	332
Mortality and morbidity	—	(55)	7	(48)
Benefit enhancements ⁽⁴⁾	(64)	—	(5)	(69)
Regulatory change ⁽⁵⁾	—	—	100	100
Tax ⁽⁶⁾	(13)	—	28	15
Other	—	8	(12)	(4)
Total	185	(5)	127	307

(1) The Life lapse assumption change includes an assumption change in respect of Health Plan Protector policies.

(2) The Life economic assumptions change includes a higher cancellation rate on contribution increases which has been changed to be consistent with the current lower inflationary environment. The impact of a higher cancellation rate on contribution increases was a negative R60 million. The impact of the 1,5% reduction in the economic assumptions is positive R123 million.

(3) The Health and Vitality renewal expense assumption change is based on the results of the most recent expense analysis (30 June 2005). For Health and Vitality, the actual experience reflects efficiencies achieved in managing the Health business. The Destiny Health renewal expense assumption is not based on recent expense experience, but has been adjusted to allow for growth in membership over the next 12 months.

(4) The Health and Vitality assumption change includes an allowance for the expected cost of benefit enhancements on Vitality.

(5) This represents the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the financial commentary.

(6) The tax assumption change reflects a lower South African corporate tax rate. On Health and Vitality, this is offset by a higher average VAT rate modelled.

Table 6: Experience variances for the year ended 30 June 2005

R million	Health and Vitality	Destiny Health	Life	Total
Renewal expenses	37	(13)	5	29
Non-recurring expenses ⁽¹⁾	(9)	(9)	—	(18)
Inflation ⁽²⁾	(79)	—	(5)	(84)
Extended modelling term ⁽³⁾	154	14	3	171
Lapses ⁽⁴⁾	200	0	(8)	192
Policy alterations	8	3	71	82
Mortality and morbidity ⁽⁵⁾	—	(41)	68	27
Life quota share ⁽⁶⁾	—	—	(24)	(24)
Reinsurance	—	—	(3)	(3)
Tax	(5)	—	(5)	(10)
Other	8	6	(13)	1
Total	314	(40)	89	363

(1) The non-recurring expenses for Health and Vitality include moving and other costs related to the occupation of a new building, as well as costs related to the discontinuation of the Corporate Funder benefit.

For Destiny Health, non-recurring expenses are in respect of restructuring costs as well as costs related to the recruitment of an executive director.

(2) The negative variance for Health and Vitality is due to a lower 2005 increase (i.e. 4,2%) in the Health administration and managed care fees compared with that assumed in June 2004 (i.e. 5,5%).

(3) The projection term for Health, Vitality, Destiny Health and Group Life at 30 June 2005 has not been changed from that used at 30 June 2004. Thus, an experience variance arises because the total term of the in-force business is effectively increased by one year.

(4) Included in the Health and Vitality lapse experience variance is an amount of R345 million in respect of members joining existing employer groups during the period, offset by an amount of R167 million in respect of members leaving existing employer groups. A positive variance of R122 million is due to lower than expected lapses.

(5) The Life mortality and morbidity variance is net of reinsurance.

(6) The impact of implementing the new quota share agreement was negative R24 million. This however excludes investment return of R10 million earned on the assets received.

Table 7: Embedded value of new business for the year ended 30 June 2005

R million	2005	2004	% change
Health and Vitality			
Gross profit from new business at point of sale	229	155	
Cost of capital	—	—	
Net profit from new business at point of sale	229	155	48
New business annualised premium income ⁽¹⁾	1 734	1 259	38
Life			
Gross profit from new business at point of sale	676	583	
Cost of capital	(157)	(131)	
Net profit from new business at point of sale ⁽²⁾	519	452	15
New business annualised premium income ⁽³⁾	470	406	16
Annualised profit margin ⁽⁴⁾	13,5%	13,3%	
Destiny Health			
Gross profit from new business at point of sale	36	36	
Cost of capital ⁽⁵⁾	(1)	(6)	
Net profit from new business at point of sale ⁽⁶⁾	35	30	17
Net profit from new business at valuation date ⁽⁷⁾	114	78	46
New business annualised premium income ⁽¹⁾	603	378	60
New business annualised premium income (US\$ million)	97	56	73

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

The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 30 June 2005.

The total Health and Vitality new business annualised premium income written over the period was R2 869 million (June 2004: R2 184 million). For Destiny Health, the total new business annualised premium income written over the period was R809 million (June 2004: R494 million).

(2) The Life value of new business includes R44 million in respect of the value to shareholders of the deferment of tax. A deferred tax liability has been set up that is explained in the balance sheet section of the financial commentary.

(3) Life new business annualised premium income of R470 million shown above is net of automatic premium increases and servicing increases in respect of existing business. The total Life new business annualised premium income written over the period, including both automatic premium increases of R81 million and servicing increases of R78 million, was R629 million.

(4) The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums. The majority of policies sold under Life have accelerated premiums, i.e. premiums that increase over the term of the policies, hence expressing the value of new business as a percentage of the current new business premium, 111% (June 2004: 111%) would overstate the annualised profit margin.

(5) As most of the new business is written on the Guardian and Tufts insurance licences, Destiny Health is not required to hold statutory capital for this business. An explicit charge for the use of their capital is payable to Guardian and Tufts, and this cost is included in the gross profit from new business.

(6) The Destiny Health value of new business allows for the actual new business expenses incurred over the twelve month period. Actual new business expenses include infrastructure development costs related to developing new business capacity. No allowance has been made for acquisition cost efficiencies which are expected to occur in the future.

(7) The value of new business at the valuation date excludes all acquisition costs.



Discovery

Discovery Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 1999/007789/06) (Share code: DSY ISIN: ZAE000022331)
("Discovery" or "the company")



Announcement of a Black Economic Empowerment transaction

1. Introduction

Discovery is pleased to announce that it has reached agreement to conclude a Black Economic Empowerment ("BEE") transaction ("the proposed BEE transaction") pursuant to which shares equivalent to approximately 7,0% of Discovery's current issued share capital (or 6,54% of the issued share capital post the proposed BEE transaction) will be allocated as follows:

- 1,0% to Discovery employees and black non-executive directors;
- 2,6% to the Discovery Foundation; and
- 3,4% to BEE groups comprising a broad base of historically disadvantaged individuals ("HDIs").

The proposed BEE transaction has a value of approximately R831 million based on the 30-day volume weighted average price ("VWAP") of a Discovery share to Friday, 9 September 2005 of R21,47. Due to the fact that Discovery holds significant offshore assets, the transaction represents approximately 7,7% of the value of Discovery's South African operations.

Discovery subscribes to the black ownership requirements as embodied in the Financial Sector Charter ("the Charter"), to introduce BEE ownership equivalent in value to at least 25% of the value of Discovery's South African operations. In terms of the Charter, Discovery will be compliant with the 25% BEE ownership requirement, taking account of the proposed BEE transaction, the empowerment credentials of FirstRand Limited (Discovery's major shareholder) and Discovery's existing indirect black shareholding.

2. Rationale

Discovery believes that BEE is a social and commercial imperative in ensuring that transformation is achieved within South Africa and is firmly committed to the principles embodied in the BEE philosophy as presented by government. Economic transformation through BEE is a necessary step towards ensuring South Africa's economic growth and long-term prosperity. Discovery believes that its benefits should pervade through all sectors of black society represented by business, the workforce and the community at large. Discovery views the proposed BEE transaction as an extension of this commitment and one manifestation of its efforts towards ensuring that transformation occurs both within Discovery and South Africa. This transformation is particularly important in overcoming the current urgent need to broaden access to both the public and private health care sectors through greater cooperation between stakeholders.

Discovery considered the alternatives of introducing BEE ownership either at holding company level or solely in the South African operations. The decision to implement the transaction at the holding company level was based on the following considerations:

- it allows the BEE partners to participate in the growth of both Discovery's local and international businesses whilst ensuring that the company has fully complied with the provisions of the Charter targets for the South African operations;
- it ensures the alignment of all shareholders' interests within Discovery;
- it provides an easily demonstrable value benchmark by virtue of Discovery being listed; and
- it allows the BEE partners to invest in a liquid asset.

In order to achieve the Charter requirement that 25% of the value of Discovery's South African assets must be held by HDIs, 22,9% of Discovery's issued ordinary share capital must be in the hands of HDIs, based on an estimate that 91,5% of Discovery's value can be attributed to its South African assets (see paragraph 5.2 below).

3. Principles relating to the proposed BEE transaction

Discovery has followed regulatory guidelines as well as Discovery-specific principles in structuring the proposed BEE transaction in order to:

- achieve meaningful participation by broad-based BEE groups;
- enter into a partnership with an entrepreneurial and innovative BEE partner that will actively assist in the growth of Discovery;
- create a platform whereby black employees are recognised for their ongoing contribution to Discovery's success;
- develop a long-term relationship with its strategic BEE partners;
- transfer full economic and voting rights to its BEE partners on implementation of the proposed BEE transaction;
- achieve an acceptable economic cost to Discovery's ordinary shareholders; and
- comply with the Charter.

4. Discovery's BEE partners

WDB Investments Holdings (Proprietary) Limited ("WDBIH")

WDBIH is a wholly owned subsidiary of WDB Trust ("WDB"). The WDB Trust was established in 1992 with the purpose of supporting the economic upliftment of poor black women in rural South Africa. Its specific objectives are to provide poor women with access to finance through not-for-profit micro-credit, to educate women about developing their own businesses, to enhance their household livelihoods and to improve the position of women in society overall. WDB emphasises a banking relationship based on mutual trust, credit discipline, collective responsibility, accountability and savings. Since its establishment, WDB has reached over 14 000 women in rural areas with its training and micro-credit programmes. WDB also provides training in mother tongue functional literacy, computer literacy, business development skills and micro-credit delivery.

WDBIH is the for-profit arm of the WDB Group and is recognised as a leading broad-based women's empowerment grouping. Profits made by WDBIH are returned to WDB to enable the trust to further its objectives. WDBIH's partnerships are premised on being an active shareholder, in particular with regard to assisting with transformation issues and the low income market. Furthermore, a cooperation agreement will be entered into between the BEE parties to provide an effective channel for their participation in Discovery.

Dr Thabane Vincent Maphai ("Dr Maphai")

Dr Maphai, current chairman of BHP Billiton SA, joins the BEE partnership as a highly respected executive in South Africa's corporate sector. Dr Maphai will chair the Discovery Foundation, bringing vision, leadership and social commitment to this important initiative. As a nominated new non-executive Discovery board member, Dr Maphai also brings to Discovery his business acumen, leadership qualities and unique insight into the transformation challenges facing South Africa. He has experienced these challenges both from the perspectives of business and the State, for example, when he chaired the Presidential Review Commission into the restructuring of the public sector and the board of the SABC.

The Discovery Foundation

The Discovery Foundation is an entity which will be created pursuant to the proposed BEE transaction. The Discovery Foundation will be a BEE entity, with the majority of its trustees being black South Africans. Its objective will be the economic upliftment of black South Africans. Its trustees will be drawn from Discovery's BEE partners and independent people with appropriate experience, in consultation with the stakeholders who represent the beneficiaries. Amongst its initial programmes, the Discovery Foundation will focus on the educational and professional development of black South Africans for the medical and health care industry. Therefore, the Foundation will seek to have significant impact in a focused area of special need in the health sector.

Discovery employees and black non-executive directors

Discovery's board of directors believes the participation of its employees in the proposed BEE transaction substantially enhances the broad-based nature of its transaction and recognises the contribution of the employees to the success of the

company. All of Discovery's permanent employees will be included in the employee scheme. Allocation of shares to the employee scheme has been weighted to ensure that the majority of the beneficiaries of the employee scheme are HDIs as defined in the Charter.

The employees scheme has been designed to ensure the following objectives will be achieved:

- retention of employees;
- acknowledgement of the individual contributions made by middle and senior black management; and
- recognition of the collective contribution made by all employees in Discovery's success.

In addition, an allocation has been made to the black non-executive directors of Discovery, Judith Dlamini and Sindiswa Zilwa. This allocation has been made to allow black non-executive directors to participate in the proposed BEE transaction in recognition for the invaluable guidance they have and will continue to provide to Discovery in operating within the local health care and financial services industries.

5. The proposed BEE transaction

5.1 The flow-through from the FirstRand BEE transaction

The Charter states that provided a financial institution is at least 25% owned by another financial institution, it may take into account a portion of the black ownership in that other company based on the percentage shareholding of that other company in the financial institution concerned.

FirstRand, an effective 62,3% shareholder in Discovery, has committed itself to be fully compliant with the 25% black ownership requirements of the Charter by 2010 and has implemented a 10% direct ownership BEE transaction, details of which are available in the FirstRand announcement dated 24 February 2005.

5.2 Value of South African operations

Discovery has undertaken a valuation of its non-South African assets and is of the view that the non-South African assets conservatively account for at least 8,5% of the total value of Discovery.

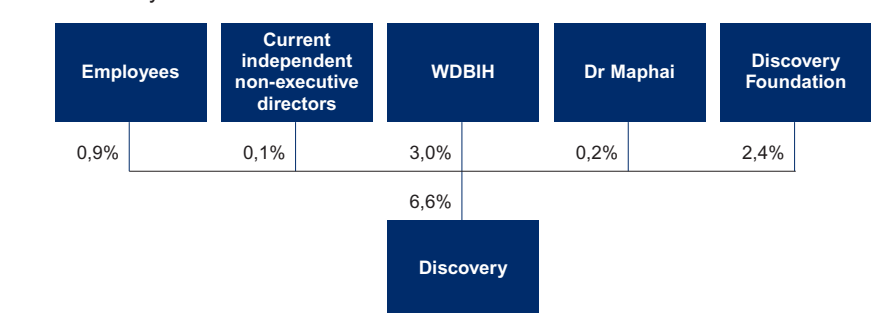
5.3 Summary of Discovery's BEE ownership post the proposed transaction

The black ownership of Discovery, post the proposed BEE transaction, will be as follows:

	Shareholding in Discovery	Shareholding in Discovery as a % of Discovery's South African operations
WDBIH	3,0%	3,3%
Dr Maphai	0,2%	0,2%
Discovery Foundation	2,4%	2,6%
Discovery's employees and non-executive directors	1,0%	1,1%
Discovery employees via existing incentive arrangements	0,2%	0,2%
FirstRand BEE shareholders	14,4%	15,7%
Estimated Indirect shareholding	1,7%	1,9%
Total	22,9%	25,0%

5.4 Resultant structure

Upon implementation of the proposed BEE transaction, the BEE shareholding in Discovery will be as follows:



5.5 Mechanics of the proposed BEE transaction

WDBIH, Dr Maphai, Discovery Foundation and non-executive directors ("BEE parties")

Discovery will issue to the BEE parties approximately 33 336 000 ordinary shares representing 6,0% of the current issued share capital of the company (or 5,6% of the issued share capital post the proposed BEE transaction) for a total consideration of R3,9 million. The difference between the market value of the ordinary shares of R715 million and 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").

The consideration will be paid by Discovery at the end of this 10-year period from available cash resources, subject to the requirements of the Companies Act and the rules of the JSE Limited ("the JSE").

In order to allow the BEE parties to retain the full number of Discovery shares that will be issued to them in terms of the proposed BEE transaction, the BEE parties will have a right to simultaneously acquire from Discovery, at the then 30-day VWAP per Discovery share, the same number of shares repurchased by Discovery in terms of the Discovery repurchase agreement.

The ordinary shares acquired by the BEE parties in terms of the proposed BEE transaction will rank *pari passu* with existing Discovery ordinary shares and will entitle the holders to all dividends or capital distributions made by Discovery. The BEE parties have undertaken to utilise these distributions to acquire additional Discovery ordinary shares in the market within three months of the date of any distribution. The acquisition of additional Discovery ordinary shares will further contribute to ensuring the long-term sustainability of the proposed BEE transaction.

Employee scheme

Discovery will issue to a newly created employee trust approximately 5 390 000 ordinary shares representing approximately 1,0% of the current issued share capital of the company (or 0,9% of the issued share capital post the proposed BEE transaction) at the par value of 0,1 cent per share. The beneficiaries of the trust will be Discovery's South African employees with the majority of the beneficiaries being HDIs.

5.6 Restrictions on transfer of Discovery shares by WDBIH and Dr Maphai

WDBIH and Dr Maphai will not be entitled at any time to sell or transfer ownership of any of the Discovery ordinary shares for the first 10 years after the issue date, unless Discovery agrees otherwise.

5.7 Cooperation agreement

A cooperation agreement will be entered into between the BEE parties to provide an effective channel for their participation in Discovery.

5.8 Conditions precedent to the proposed BEE transaction

The proposed BEE transaction is subject to, *inter alia*, the following conditions precedent:

- the passing of all necessary resolutions by the requisite majority of shareholders at a general meeting of Discovery; and
- the approval of the JSE.

5.9 Appointment of directors to the board

In terms of an agreement entered into between Discovery and WDBIH, WDBIH will be entitled to nominate a representative to participate on the board of Discovery and its sub-committees.

In terms of an agreement entered into between Discovery and Dr Maphai, Dr Maphai will be nominated to join the board of Discovery as a non-executive director.

6. Accounting treatment

The principle underlying the accounting treatment is consistent with the accounting policies as applied for the year ended 30 June 2005 and is compliant with South African Statements of Generally Accepted Accounting Practice (GAAP). GAAP may require a transaction to be accounted for in a different manner to its legal substance and form.

Discovery will apply International Financial Reporting Standards (IFRS) with effect from the financial year ended 30 June 2006. Upon implementation of these standards, Discovery may be required to account for the effective facilitation cost of the transaction as a share-based payment in terms of IFRS: Share-based Payments (IFRS 2) and the accounting guidance issued by the South African Institute of Chartered Accountants.

7. Financial effects of the proposed BEE transaction

The *pro forma* financial effects set out below have been prepared to assist Discovery ordinary shareholders to assess the impact of the proposed BEE transaction on the earnings, net asset value, headline earnings and tangible net asset value per Discovery ordinary share. These *pro forma* financial effects have been disclosed in terms of the JSE Listings Requirements and should not in any way be construed as a forecast of the Group's financial position.

The *pro forma* financial effects of the transaction set out below are provided for illustrative purposes only and are based on the following assumptions:

- the earnings, net asset value, headline earnings and tangible net asset value per share reflected in the "before" column were extracted from the Group's audited results for the year ended 30 June 2005;
- the effect on net asset value and tangible net asset value per share reflected in the "after" column assumes that the transaction was effective on 30 June 2005; and
- the effect on earnings and headline earnings per share reflected in the "after" column assumes that the transaction was effected on 30 June 2004.

	Actual before the transaction	Pro forma after the transaction	Increase	Increase (%)
Earnings per ordinary share (cents)	112,6	112,6	—	—
Headline earnings per ordinary share (cents)	103,3	103,3	—	—
Net asset value per ordinary share (cents)	620,0	620,0	—	—
Tangible net asset value per ordinary share (cents) ²	611,5	611,5	—	—
Actual number of ordinary shares in issue (000's)	548 957	587 682	38 725	7
Weighted average number of ordinary shares in issue (000's)	519 188	519 188	—	—

Notes:

1. Discovery will only report its results in terms of IFRS with effect from the year ended 30 June 2006. As such, no effect has been taken into account of the impact of the application of IFRS2, however the IFRS2 impact will be disclosed to shareholders in the circular referred to in paragraph 9 below.
2. Includes R1 881 million in respect of assets under insurance contracts.

8. Estimated economic cost

Discovery has estimated the economic cost of entering into the proposed BEE transaction for the Group and its shareholders. Discovery estimates that the value of the facilitation to be provided by Discovery shareholders to the BEE partners for the proposed BEE transaction is approximately R260 million. This represents 2,1% of the market capitalisation of Discovery based upon its closing share price on Friday, 9 September 2005.

9. Documentation

A circular containing the full details of the transaction, including a notice of general meeting, will be posted to Discovery shareholders in due course.

Sandton
13 September 2005

Joint transactional adviser and transaction sponsor



Joint transactional adviser



Financial adviser to WDBIH



Corporate law advisers to Discovery



Legal advisers to WDBIH



Structuring adviser



Reporting accountants and auditors



Independent sponsor

