proof 10 – 3 Sept 07

Diluted HEPS **+33%** to **168,4 cents per share**

New business annualised premium income **+15%** to **R5,2 billion**

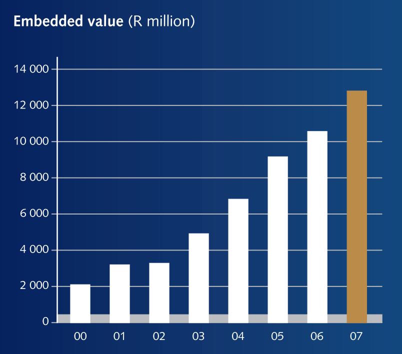
Total dividend for the year of **37 cents per share**

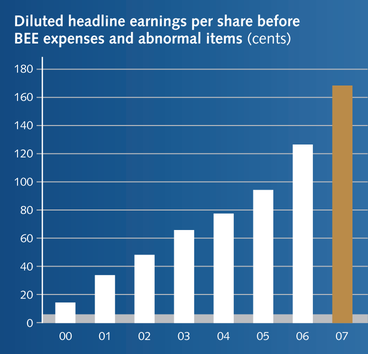
Operating profit **+20%** to **R1,5 billion**

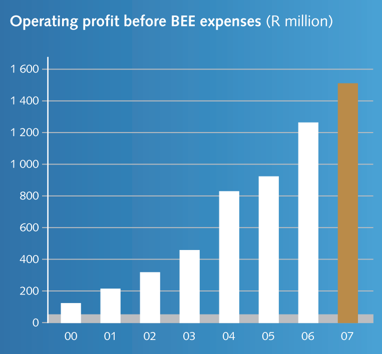
Net profit after tax excluding BEE **+34%** to **R1,1 billion**

Discovery

Audited results for the year ended **30 June 2007**







INTRODUCTION

The period under review has been not only a successful period, but also a fundamental one in the evolution of Discovery. Operating performance has progressed in a pleasing manner, but more importantly, significant structural change has taken place – both at shareholder level and within most of the operating businesses.

The unbundling of FirstRand's shareholding in Discovery is a point of inflection for Discovery, in that it removes any strategic conflict going forward and opens up many opportunities for the group.

Within each business, significant innovations took place during the period. Not only does innovation continue, but additional businesses have been constructed and will be rolled out during this present financial year. The combination of these factors has created a step-change within Discovery and in its prospects.

It is important to note that Discovery's purpose of making people healthier and enhancing and protecting their lives fits in squarely with the global trend of wellness. Discovery finds itself, within each of its businesses, able to compete effectively and sustainably – and able to meet clients' needs in unique ways. The Discovery ethos of "consumer-engaged financial services" flows through all of the businesses, creating consumer demand for our products, ensuring strong organic growth and driving profitability for shareholders.

For the period under review group operating profit increased by 20% before the impact of the BEE transaction to R1 510 million (2006: R1 263 million), while net profit after tax, excluding BEE, rose by 34% to R1 107 million (2006: R827 million). Diluted headline earnings per share before the impact of the BEE transaction increased 33% to 168.4 cents (2006: 126.4 cents) and new business grew to R5.2 billion.

THE UNBUNDLING OF FIRSTRAND SHAREHOLDING IN DISCOVERY

Discovery is pleased to announce that FirstRand will be unbundling its majority Discovery shareholding to FirstRand shareholders. Over the past few years there has been regular debate at the FirstRand and Discovery Boards regarding FirstRand's majority shareholding in Discovery, including the relative merits of an unbundling:

- From Discovery's perspective, there has been a continuous trade-off between the considerable value added by FirstRand against the market-place competition between Discovery and other FirstRand companies – in particular, Momentum. In the past, such tensions have been managed particularly well. However, Discovery's growth, both in size and in scope, will invariably lead to difficulties going forward. With Discovery's impending launch of its investment business, the potential for conflict has increased.
- From FirstRand's perspective, its strategy of owning two insurance companies within the Group, balancing growth in market share with increasing levels of competition, was consistently monitored to ensure shareholder value was maximised.

For both FirstRand and Discovery, it is clear that the strategy has worked in the past to the benefit of all shareholders. However, going forward, the benefits of an unbundling are significant, and reflect the positioning and scale of both Discovery and FirstRand.

Discovery is particularly pleased with this development, for the following reasons:

i. The unbundling removes any strategic conflict and provides Discovery with flexibility and increased scope for business opportunities

ii. Within its new shareholder base, RMBH becomes Discovery's strategic capital partner. It is important to point out that RMBH was the original shareholder of Discovery and in effect – from a philosophical point of view – Discovery is now returning to the shareholder structure it had when it was formed in 1992

iii. The unbundling creates a significant opportunity to further enhance management ownership. Key members of the management team have indicated their intention to increase their shareholding following the unbundling

iv. The unbundling addresses the long-standing issue of Discovery's small free-float and limited liquidity of shares. When combined, the current shareholdings in Discovery of FirstRand, Discovery management and Discovery's BEE partners totals 82%, leaving a free-float of just 18%.

DISCOVERY HEALTH

Discovery Health's performance over the period was particularly pleasing. In addition to its focus on providing access to quality care on a sustainable basis for its clients, key structural initiatives were undertaken over the period aimed at placing Discovery Health and the schemes it manages in an advantageous position.

Operating profits rose by 12% to R736 million (2006: R655 million), with new business improving to R2 577 million (2006: R2 505 million). The number of lives under management grew to 2 025 650 in total (2006: 1 939 339).

Discovery Health's strategy is to utilise its scale and sophistication to build a better healthcare system for stakeholders. In this regard, a central initiative during the period was to interface with hospitals, doctors and other providers of healthcare in order to ensure quality and cost-effectiveness within the healthcare system.

To this end, Discovery Health embarked on a process with doctors to increase their remuneration appropriately and ensure that members have access to care without gaps in their coverage. The roll-out of the GP Network and the Premier Rate payment mechanism for specialists are two central strategies in this regard. This has proven particularly difficult and has ignited considerable debate within the medical community. The debate has highlighted the historic chasm that exists between providers and funders of healthcare. Nonetheless, significant progress is being made with the South African Medical Association (SAMA) and many of the specialist societies now endorsing the need to work with Discovery Health in order to build a system that is sustainable for both members and health professionals. Discovery Health is optimistic that significant progress has been made to date and expects this to continue.

From a structural perspective, considerable focus was placed on maximising operating efficiencies. In addition, Discovery Health's administration fees were reduced by approximately 1% of Gross Contribution Income, translating to a reduction of R145 million in income for Discovery Health.

In addition, considerable progress was made in building up the statutory reserves within the Discovery Health Medical Scheme towards the required level of 25% of Gross Contribution Income, as laid down by the Medical Schemes Act. Given the size and growth of the Discovery Health Medical Scheme, the Council for Medical Schemes requires it to reach 23% by 31 December 2007 and 25% by 31 December 2008. Both Discovery Health and the Discovery Health Medical Scheme are confident of achieving these targets as set out by the Regulator.

The combination of these factors positions Discovery Health particularly well going forward.

DISCOVERY LIFE

Discovery Life's performance exceeded expectation. In addition to performing particularly well in the pure life assurance (protection) market, considerable progress was made in the construction of its long-term investment business – due to be launched during October 2007.

The company increased operating profits by 29%, while gross inflows under management increased by 33% to R2 357 million (2006: R1 768 million). Annualised new business premium income rose by 23%, to a record of just under R1 billion (2006: 789 million). The value of business in force improved significantly, growing by 35% to R5 826 million (2006: R 4 322 million).

The company has developed a strong leadership position in the pure-risk life insurance market (protection market), enabling it to grow both strongly and profitably. In addition, the strong growths in embedded value – and the positive experience variances within it – reflect the quality of business being transacted.

During this period, focus was applied to Discovery Life's distribution channels to enhance and deepen their potential – for both the existing protection products and the impending investment products. To this end, work began on the construction of a high-quality tied agency force. By the end of the period almost 100 agents with production significantly above market average have been recruited, and are currently producing approximately 10% of Discovery Life's new business.

Discovery Life's launch into the investment market is aimed at capitalising on current market trends and the macro factors giving rise to them. The approach will be to embrace the evolving trends in the investment markets of consumerism, transparency of fees and open architecture, with Discovery's ability to add value through product innovation and its other assets. Discovery Life is confident of its ability to make an impact in this market and to add value to its clients.

PRUHEALTH

PruHealth's performance over the period was in line with expectation. Discovery remains optimistic in its potential for profitable growth and its ability to make an impact on the UK market. During the period, focus was applied to pricing, underwriting and managed care, in order to maximise the quality of business, and to building the infrastructure to ensure that it can achieve cost levels that move it toward profitability. Importantly, focus was applied during the period toward the construction of PruProtect – the pure life insurance joint venture between Discovery and the Prudential, which will be launched on 25 September 2007.

New business grew strongly to R743 million in annualised premium income (2006: R282 million), bringing to 117 000 the number of lives covered (2006: 58 912) by the end of the period. Operating losses increased in line with our expectations by 23% to £16 million (2006: £13 million).

While operating performance was largely in line with that budgeted, new business production, although significant in absolute terms, was behind target by the end of the period for the following reasons:

i. As part of the focus on optimising the balance between value and volume, the direct-to-consumer strategy was revised during the fourth quarter, along with the concomitant reduction of activity in this channel. This resulted in a slow-down of new business for the quarter.

ii. On a similar line and given the company's scale and increasing credibility, it was felt that a more disciplined approach to pricing large corporate business was justified, resulting in a temporary lack of competitiveness.

Both of these factors have been addressed and new business has since reverted to budgeted levels. Given the company's scale, the infrastructure built and the focus on cost and quality, it is expected that operating losses will narrow significantly during the next financial year.

During the period, ten broker franchises were built and rolled out across the UK. These franchises will not only provide broader access to brokers active in the health insurance market, but will form a crucial distribution channel for PruProtect as it rolls out from September onwards.

In preparation for the launch of PruProtect, the corporate structure of the entire joint venture with Prudential has been reworked. Going forward, Discovery and the Prudential plc will each own 50% of PruProtection, the holding company of PruHealth and PruProtect.

Discovery remains optimistic about the prospects for PruProtection.

VITALITY AND THE DISCOVERYCARD

Vitality's performance over the period was ahead of expectation. Revenues increased to R721 million (2006: R654 million) and operating profits remained flat at R43 million (2006: R41 million).

Vitality is the manifestation of Discovery's vision of making people healthier and, to this end, its primary role is to underpin and to integrate Discovery's products so that they offer added value to Discovery's clients. During the period, Vitality performed its crucial role of creating a significant impact on profitability, product competitiveness and reduced lapses across the Group. In particular, the Discovery Life Card Integrator was launched during the period, bringing together the Life Plan, Vitality and the DiscoveryCard.

The results have exceeded expectation with 17% of sales of the Life Plan utilising the Card Integrator. From a financial perspective, Vitality performed particularly well – despite expensing entire start-up costs of WellPoint, a corporate product launched during the period, which provides the tools and incentives to create a healthy workplace.

The DiscoveryCard performed soundly, despite operational difficulties during the initial implementation of the National Credit Act. These difficulties have since been addressed.

A number of fundamental enhancements were developed during the period and will be launched into the market during September 2007.

DESTINY HEALTH

Destiny Health's performance over the period was disappointing. Discovery has made it clear in previous announcements that the last 24 months have been particularly difficult for Destiny. A new management team was put in place to address these difficulties and move the company onto a path of growth and profitability. As part of the process, Discovery established a number of strategic criteria for Destiny's progress to ensure the appropriate focus and discipline.

Considerable progress was made in relation to many of the key operational, product and market strategies; however, from a financial perspective, the performance fell short of the criteria.

Operationally, key initiatives included: restructuring the partnerships with Tufts and Guardian; announcement of a partnership with one of the world's largest insurers Aegon; selling Vitality as a stand-alone, non-risk product to large companies; and expansion into new markets with more favourable pricing and a more favourable competitive landscape.

From a financial perspective, the Board set two criteria:

- Operating losses cannot exceed 5% of the Group's overall operating profit – which was disclosed publicly
- Each six-month period must be better than the last.

At the interim stage, Destiny's financial performance was in line with budget and comfortably in line with these measures and this favourable performance continued from January through to April of this year. Unfortunately, the financial performance in May and June was disappointing, giving rise to an operating loss of R102 million over the period (5.9% of Discovery's operating profit). In effect, therefore, two of the conditions set were breached during the period.

Over the past three months, intense work has been done to evaluate the strategy going forward, taking into account the unique assets of the Discovery Group and how they could be best positioned in the US. Discovery is currently assessing a number of strategic options in this regard and will announce the appropriate strategy on 15th October 2007.

PROSPECTS

Discovery's businesses are well positioned for growth going forward without requiring additional capital.

LL Dippenaar
Chairman

A Gore
Chief Executive Officer

3 September 2007

Directors

LL Dippenaar *(Chairman)*, A Gore *(Chief Executive Officer)*, JM Robertson*, Dr BA Brink, JP Burger, Dr NJ Dlamini, SB Epstein *(USA)*, PK Harris**, MI Hilkowitz *(Israel)*, NS Koopowitz*, Dr TV Maphai, HP Mayers*, A Pollard***, S Sebotsa, B Swartzberg*, SV Zilwa, SD Whyte****

Executive **Appointed 15 February 2007 ***Appointed 30 August 2007 ** Resigned 30 August 2007*

Transfer secretaries

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(Registration number 2004/003647/07)
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PO Box 61051, Marshalltown, 2107

Sponsors

Rand Merchant Bank (A division of FirstRand Bank Limited)

Secretary and registered office

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

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

www.discovery.co.za

INCOME STATEMENT

for the year ended 30 June 2007

R million	Group 2007	Group 2006	% Change
Insurance premium revenue	3 710	2 824	
Reinsurance premiums	(593)	(456)	
Net insurance premiums	3 117	2 368	
Fee income from administration business	2 142	1 961	
Investment income	175	161	
Net realised gains on financial instruments held as available-for-sale	195	157	
Net fair value gains on financial instruments at fair value through profit or loss	151	121	
Vitality income	721	654	
Net income	6 501	5 422	
Insurance benefits and claims	(1 919)	(1 348)	
Insurance claims recovered from reinsurers	475	374	
Net insurance benefits and claims	(1 444)	(974)	
Acquisition costs	(1 015)	(908)	
Marketing and administration expenses	(3 069)	(2 624)	
Recovery of expenses from reinsurer	91	–	
Transfer from assets/liabilities under insurance contracts	587	468	
– change in assets arising from insurance contracts	651	582	
– change in liabilities arising from insurance contracts	(60)	(113)	
– change in liabilities arising from reinsurance contracts	(4)	(1)	
Fair value adjustment to liabilities under investment contracts	(141)	(121)	
Profit before BEE expenses	1 510	1 263	20
BEE expenses	(34)	(161)	
Profit from operations	1 476	1 102	
Finance costs	(21)	(21)	
Foreign exchange profit/(loss) – unrealised	3	(7)	
Share of profit from associate	–	2	
Profit before taxation	1 458	1 076	36
Taxation	(385)	(410)	
Profit for the year	1 073	666	61
Attributable to:			
Equity holders	1 073	669	
Minority interests	–	(3)	
	1 073	666	
Earnings per share for profit attributable to the equity holders during the year (cents):			
– basic	200,0	126,5	58
– diluted	196,4	121,0	62

BALANCE SHEET

at 30 June 2007

R million	Group 2007	Group 2006
ASSETS		
Property and equipment	228	186
Intangible assets including deferred acquisition costs	113	66
Assets arising from insurance contracts	3 114	2 463
Investment in associates	1	7
Financial assets	4 056	2 675
– Equity securities	2 155	1 600
– Debt securities	313	233
– Money market	577	206
– Equity linked notes	123	77
– Loans and receivables including insurance receivables	888	559
Deferred income tax	80	41
Current income tax asset	4	–
Reinsurance contracts	51	32
Cash and cash equivalents	996	1 322
Total assets	8 643	6 792
EQUITY		
Capital and reserves		
Share capital and share premium	1 393	1 348
Other reserves	912	640
Retained earnings	3 057	2 224
Total equity	5 362	4 212
LIABILITIES		
Liabilities arising from insurance contracts	742	464
Liabilities arising from reinsurance contracts	20	24
Financial liabilities		
– Investment contracts at fair value through profit or loss	735	604
– Borrowings at amortised cost	73	161
Deferred income tax	806	518
Deferred revenue	122	203
Provisions	48	36
Trade and other payables	735	522
Current income tax liabilities	–	48
Total liabilities	3 281	2 580
Total equity and liabilities	8 643	6 792

CASH FLOW STATEMENT

for the year ended 30 June 2007

R million	Group 2007	Group 2006
Cash flow from operating activities	575	580
Cash generated by operations	799	439
Working capital changes	(42)	217
	757	656
Dividends received	43	33
Interest received	143	122
Finance costs	(23)	(22)
Taxation paid	(345)	(209)
Cash flow from investing activities	(625)	(138)
Net purchases of investments	(456)	(46)
Purchase of equipment	(108)	(59)
Disposal of equipment	–	1
Purchase of intangible assets	(61)	(34)
Cash flow from financing activities	(283)	(39)
Proceeds from shares issued	48	23
Share issue costs written off against share capital	–	(4)
Dividends paid to equity holders	(239)	–
Dividends paid to Destiny Health preference shareholders	–	(1)
Minority share buy-back	(5)	(6)
(Repayment)/increase of borrowings	(87)	16
Redemption of Destiny preference shareholders	–	(67)
Net (decrease)/increase in cash and cash equivalents	(333)	403
Cash and cash equivalents at beginning of year	1 322	916
Effects of exchange rate changes on cash and cash equivalents	7	3
Cash and cash equivalents at end of year	996	1 322

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2007

R million	Share capital and share premium	Share-based payment reserve	Investment reserve	Translation reserve	Hedging reserve	Retained earnings	Minority interest	Total
	Attributable to equity holders of the Company							
30 June 2006								
Balance at 1 July 2005	1 336	20	209	98	3	1 557	67	3 290
Issue of capital	16	–	–	–	–	–	3	19
Share issue expenses	(4)	–	–	–	–	–	–	(4)
Share-based payments	–	185	–	–	–	–	–	185
Unrealised gains on investments	–	–	288	–	–	–	–	288
Capital gains tax on unrealised gains on investments	–	–	(39)	–	–	–	–	(39)
Realised gains on investments transferred to income statement	–	–	(157)	–	–	–	–	(157)
Capital gains tax on realised gains on investments	–	–	18	–	–	–	–	18
Currency translation differences	–	–	–	14	–	–	–	14
Transfer to hedging reserve	–	–	–	–	1	–	–	1
Net profit for the period	–	–	–	–	–	669	(3)	666
Dividends paid to Destiny Health preference shareholders	–	–	–	–	–	(1)	–	(1)
Realised loss on minority share buy-back	–	–	–	–	–	(1)	–	(1)
Redemption of Destiny Health preference shares	–	–	–	–	–	–	(67)	(67)
Balance at 30 June 2006	1 348	205	319	112	4	2 224	–	4 212
30 June 2007								
Balance at 1 July 2006	**1 348**	**205**	**319**	**112**	**4**	**2 224**	**–**	**4 212**
Issue of capital	**45**	**–**	**–**	**–**	**–**	**–**	**–**	**45**
Share-based payments	**–**	**52**	**–**	**–**	**–**	**–**	**–**	**52**
Unrealised gains on investments	**–**	**–**	**458**	**–**	**–**	**–**	**–**	**458**
Capital 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**	**257**	**542**	**115**	**(2)**	**3 057**	**–**	**5 362**

SEGMENTAL INFORMATION

for the year ended 30 June 2007

R million	Health: South Africa	Health: United States of America	Health: United Kingdom	Life: South Africa	Life: United Kingdom	Vitality	Total
30 June 2007							
New business annualised premium income*	**2 577**	**768**	**743**	**971**	**–**	**100**	**5 159**
Gross inflows under management*	**18 828**	**1 449**	**556**	**2 357**	**–**	**721**	**23 911**
Income statement							
Insurance premium revenue	**158**	**921**	**278**	**2 353**	**–**	**–**	**3 710**
Reinsurance premiums	**(3)**	**(65)**	**(25)**	**(500)**	**–**	**–**	**(593)**
Fee income from administration business	**2 138**	**–**	**–**	**4**	**–**	**–**	**2 142**
Investment income and gains	**55**	**13**	**4**	**434**	**–**	**15**	**521**
Vitality income	**–**	**–**	**–**	**–**	**–**	**721**	**721**
Net income	**2 348**	**869**	**257**	**2 291**	**–**	**736**	**6 501**
Insurance benefits and claims	**(128)**	**(707)**	**(207)**	**(877)**	**–**	**–**	**(1 919)**
Insurance claims recovered from reinsurers	**2**	**64**	**16**	**393**	**–**	**–**	**475**
Acquisitions 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	**1**	**(15)**	**(25)**	**626**	**–**	**–**	**587**
Fair value adjustment to liabilities under investment contracts	**–**	**–**	**–**	**(141)**	**–**	**–**	**(141)**
Expenses	**(1 557)**	**(958)**	**(471)**	**(1 291)**	**(36)**	**(678)**	**(4 991)**
Profit from operations	**791**	**(89)**	**(214)**	**1 000**	**(36)**	**58**	**1 510**
BEE expenses							**(34)**
Finance costs							**(21)**
Foreign exchange gain – unrealised							**3**
Profit before taxation							**1 458**
Taxation							**(385)**
Profit for the year							**1 073**
30 June 2006							
New business annualised premium income*	2 505	796	282	789	–	107	4 479
Gross inflows under management*	16 542	1 322	141	1 768	–	654	20 427
Income statement							
Insurance premium revenue	74	911	71	1 768	–	–	2 824
Reinsurance premiums	(2)	(81)	–	(373)	–	–	(456)
Fee income from administration business	1 961	–	–	–	–	–	1 961
Investment income and gains	34	9	4	382	–	10	439
Vitality income	–	–	–	–	–	654	654
Net income	2 067	839	75	1 777	–	664	5 422
Insurance benefits and claims	(57)	(656)	(43)	(592)	–	–	(1 348)
Insurance claims recovered from reinsurers	2	76	–	296	–	–	374
Acquisitions costs	–	(82)	(8)	(752)	–	(66)	(908)
Marketing and administration expenses	(1 319)	(242)	(153)	(363)	–	(547)	(2 624)
Transfer from assets/liabilities under insurance contracts	(4)	(77)	(13)	562	–	–	468
Fair value adjustment to liabilities under investment contracts	–	–	–	(121)	–	–	(121)
Expenses	(1 378)	(981)	(217)	(970)	–	(613)	(4 159)
Profit from operations	689	(142)	(142)	807	–	51	1 263
BEE expenses							(161)
Finance costs							(21)
Foreign exchange loss – unrealised							(7)
Share of profit from associate							2
Profit before taxation							1 076
Taxation							(410)
Profit for the year							666

* *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.*

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2007

The embedded value of Discovery at 30 June 2007 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.

Prior to 31 December 2005, Life based the embedded value on the Financial Soundness Valuation Method (FSV). A change in actuarial guidance (PGN107) effective for financial year-ends on or after 31 December 2005 required long-term insurers to base the embedded value on the Statutory Valuation Method (SVM). The key difference between the two bases for Life is that the value capitalised in the assets under insurance contracts on the FSV basis may not be reflected as an insurance asset under the SVM. The net asset value shown on the published balance sheet has been adjusted to reflect the elimination of the assets under insurance contracts as per the Life statutory accounts. The value of the assets under insurance contracts on the FSV basis is released in the value of in-force of the Statutory Valuation Method over time. The capital maintained for Life throughout the projection term is based on the statutory capital as defined by the SVM.

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 cost of capital and STC.

For Destiny Health, no published value has been placed on the current in-force business. Due to fundamental changes to the alliances with Tufts and Guardian over the past 6 months as well as the changes to the business as a result of the marketing alliance with AEGON, the current book of in-force business is relatively small. Experience with regard to the key embedded value assumptions has also been volatile over the past 12 months. This has made it difficult to set reliable assumptions with regard to future experience. Embedded value calculations on a range of realistic assumption sets indicate that the value of in-force is essentially zero.

For PruHealth, no value has been placed on the current in-force business due to the relatively small book of business which results in the underlying experience being statistically volatile.

The auditors, PricewaterhouseCoopers Inc., have reviewed the embedded value statement for the year ended 30 June 2007. A copy of the auditors' unqualified report is available for inspection at the company's registered office.

Table 1: Group embedded value

at 30 June

R million	30 June 2007 10 year term for Health and Vitality	30 June 2007 20 year term for Health and Vitality(1)	30 June 2006	% change(2)
Shareholders' funds	**5 362**	**5 362**	4 212	27
Elimination of assets under insurance contracts	**(2 813)**	**(2 813)**	(2 088)	
Shareholders' funds excluding assets under insurance contracts	**2 549**	**2 549**	2 124	
Value of in-force business before cost of capital	**10 556**	**11 776**	8 774	
Cost of capital	**(32)**	**(32)**	(60)	
Cost of STC(3)	**(247)**	**(275)**	(251)	
Discovery Holdings embedded value	**12 826**	**14 018**	10 587	21
Number of shares (millions)	**538,7**	**538,7**	533,4	
Embedded value per share	**R23,81**	**R26,02**	R19,85	20
Diluted number of shares (millions)	**559,7**	**559,7**	553,2	
Diluted embedded value per share(4)	**R23,25**	**R25,38**	R19,47	19

(1) The term of the Health and Vitality projection is currently set at 10 years. There is significant value in the business after 10 years. Since it is managements' intention to move to a 20 year projection term for Health and Vitality in future, the result of the embedded value based on the extended term is also shown. For the 20 year term projection, the lapse rate assumption in the later years has been increased. The analysis of the change in embedded value below is based on a 10 year projection term. Note that the projection term of the Group Life product remains at 10 years.

(2) This shows the change in values between June 2006 and June 2007 based on a 10 year term for Health and Vitality.

(3) 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. The STC rate is assumed to decrease from 12,5% in 2007 to 10% for the remainder of the projection term. The total STC charge has been allocated between the different business entities based on their contribution to the total value of in-force.

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

Table 2: Value of in-force business

R million	Value before cost of capital and STC	Cost of capital	Cost of STC	Value after cost of capital and STC
at 30 June 2007 – 10 year term for Health and Vitality				
Health and Vitality	4 558	–	(107)	4 451
Life(1)	5 998	(32)	(140)	5 826
Total	**10 556**	**(32)**	**(247)**	**10 277**
at 30 June 2007 – 20 year term for Health and Vitality				
Health and Vitality	5 778	–	(135)	5 643
Life(1)	5 998	(32)	(140)	5 826
Total	**11 776**	**(32)**	**(275)**	**11 469**
at 30 June 2006				
Health and Vitality	4 258	–	(122)	4 136
Life(1)	4 496	(45)	(129)	4 322
Destiny Health	20	(15)	(0)	5
Total	**8 774**	**(60)**	**(251)**	**8 463**

(1) On the SVM basis, the Life cost of capital is based on a capital adequacy requirement at June 2007 of R145 million. (June 2006: R94 million on the SVM basis).

Table 3: Group embedded value earnings

for the year ended 30 June

R million	2007	2006
Embedded value at end of period	**12 826**	10 587
Less: Embedded value at beginning of period	**(10 587)**	(9 173)
Increase in embedded value	**2 239**	1 414
Net issue of capital	**(45)**	(12)
Dividends paid	**239**	1
Realised loss on minority share buy-back	**1**	1
Transfer to hedging reserve	**6**	(1)
Embedded value earnings	**2 440**	1 403
Return on opening embedded value	**23,0%**	15,3%

Table 4: Components of Group embedded value earnings

for the year ended 30 June

R million	2007	2006	% change
Total profit from new business (at point of sale)	**685**	572	20
Profit from existing business			
• Expected return	**1 030**	756	
• Change in methodology and assumptions(1)	**(13)**	(540)	
• Experience variances(2)	**553**	262	
Reversal of Destiny Health opening value of in-force	**(5)**	–	
Destiny Health and other new initiative costs(3)	**(338)**	(128)	
Acquisition costs(4)	**(27)**	–	
Adjustment for minority interest in Destiny Health	**–**	10	
Adjustment for Guardian profit share in Destiny Health	**–**	1	
Foreign exchange rate movements	**3**	(4)	
Cost of STC	**16**	–	
Return on shareholders' funds(5)	**536**	474	
Embedded value earnings	**2 440**	1 403	74

(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). The methodology and assumption changes for June 2007 are based on the SVM method. The methodology and assumption changes for June 2006 are based on the FSV methodology.

(2) The experience variances for June 2007 are shown on the SVM methodology. The experience variances for June 2006 are shown on the FSV methodology.

(3) For 2006, the new initiative costs reflect the expenses relating to the establishment of PruHealth. For 2007, this includes the expenses relating to the establishment and support of PruHealth, PruProtect, the Life investment product and 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. The split between PruHealth, PruProtect and Destiny Health is shown in the segmental income statement.

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

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

Table 5: Methodology and assumption changes

for the year ended 30 June 2007

R million	Health and Vitality: Net worth	Health and Vitality: Value of in-force	Life: Net worth	Life: Value of in-force	Total
Modelling changes(1)	–	–	(138)	158	20
Cost of capital modelling changes(2)	–	–	–	(97)	(97)
Economic assumptions	–	(2)	(2)	30	26
Lapse assumption(3)	–	–	4	(63)	(59)
VAT assumption(4)	–	(187)	–	–	(187)
Benefit enhancements(5)	–	–	1	(12)	(11)
Expenses(6)	–	218	(2)	(5)	211
Administration fees(7)	–	(39)	–	–	(39)
Vitality benefits	–	(22)	–	–	(22)
Mortality and morbidity(8)	–	–	3	142	145
Total	–	(32)	(134)	153	(13)

(1) The Life modelling changes primarily relate to the modelling of future commission payments and changes to the Global Linkage benefit model. In addition, negative reserves are now zeroised on a per policy level whereas in the past the negative reserve was zeroised on a portfolio level thus reducing the net worth but increasing the value of in-force.

(2) The cost of capital modelling change primarily relates to a change in the projection of future capital requirements and the costs associated with future capital requirements. In addition, the cost of capital now assumes that the capital adequacy requirement is backed by assets consisting of 100% equities in all future periods. Previously, it was assumed to be backed by assets consisting of 70% equities and 30% fixed interest securities.

(3) The Life lapse assumption has been increased following higher than expected lapse experience.

(4) This reflects an increase in the average VAT rate modelled to 14%.

(5) The Life benefit enhancements relate primarily to enhancements on the Health Plan Protector and Integrator products.

(6) The renewal expense assumption change is based on the results of the most recent expense and budget information.

(7) This reflects the present value impact of a R15 million reduction in the Health administration fees for the 2008 calendar year.

(8) The Life mortality and morbidity assumption was weakened to partly reflect the significant and sustained historic claims experience variances.

Table 6: Experience variances

for the year ended 30 June 2007

R million	Health and Vitality: Net worth	Health and Vitality: Value of in-force	Life: Net worth	Life: Value of in-force	Total
Renewal expenses	44	–	11	–	55
Non-recurring expenses(1)	(8)	–	(9)	–	(17)
Economic assumptions	0	0	5	(17)	(12)
Extended modelling term(2)	–	235	–	8	243
Lapses(3)	11	109	(15)	(8)	97
Cancellations(4)	–	–	6	(26)	(20)
Policy alterations	–	10	(17)	124	117
Premium increases	–	–	3	9	12
Mortality and morbidity(5)	17	–	52	33	102
Deferred profits released	–	–	39	(39)	–
Tax	(12)	–	(10)	3	(19)
Timing of cashflows(6)	19	–	(25)	21	15
Administration fees(7)	11	(23)	–	–	(12)
Other	14	3	(25)	(0)	(8)
Total	96	334	15	108	553

(1) The Health and Vitality non-recurring expenses relate to expenses incurred in the development of the WellPoint product. For Life, this relates to non-recurring expenses incurred in the establishment of the Smartcall Joint Venture and a new distribution channel.

(2) The projection term for Health, Vitality and Group Life at 30 June 2007 has not been changed from the 10 year term used at 30 June 2006. Thus, an experience variance arises because the total term of the in-force business is effectively increased by one year.

(3) Included in the Health and Vitality lapse experience variance is an amount of R373 million in respect of members joining existing employer groups during the period, offset by an amount of R282 million in respect of members leaving existing employer groups. A positive variance of R30 million is due to lower than expected lapses.

(4) Backdated cancellations are in respect of policies cancelled to the inception date with a corresponding refund of premiums.

(5) For Health, this relates to risk profits earned on the Select benefit options and the Keycare capitation arrangement.

(6) In practice certain cashflows occur earlier during the period than expected and thus gives rise to value differences.

(7) In July 2007, Discovery Health agreed to reduce administration fees charged to Discovery Health Medical Scheme by approximately R3 million per month before tax for the 2007 calendar year (backdated to 1 January 2007). This reduction has been allowed for in the embedded value projection with effect from 1 January 2007 but has not been included in the income statement.

Table 7: Embedded value of new business

for the year ended 30 June

R million	2007 10 year term for Health and Vitality	2007 20 year term for Health and Vitality	2006	% change(1)
Health and Vitality				
Gross profit from new business at point of sale	**71**	**129**	115	
Cost of capital	**–**	**–**	–	
Cost of STC	**(2)**	**(3)**	(3)	
Net profit from new business at point of sale(2)	**69**	**126**	112	(38)
New business annualised premium income(3)	**1 011**	**1 011**	1 121	(10)
Life				
Gross profit from new business at point of sale	**639**	**639**	532	
Cost of capital	**(8)**	**(8)**	(7)	
Cost of STC	**(15)**	**(15)**	(15)	
Net profit from new business at point of sale	**616**	**616**	510	21
New business annualised premium income(4)	**695**	**695**	592	17
Annualised profit margin(5)	**10,1%**	**10,1%**	10,8%	
Destiny Health				
Gross profit from new business at point of sale	–	–	(50)	
Cost of capital	–	–	(0)	
Cost of STC	–	–	0	
Net profit from new business at point of sale	–	–	(50)	
New business annualised premium income	–	–	457	
New business annualised premium income (US$ million)	–	–	71	

(1) This shows the change in values between June 2006 and June 2007 based on a 10 year term for Health and Vitality.

(2) The value of new business at 30 June 2007 using a 10 year projection term, net of acquisition costs incurred, was R232 million (30 June 2006: R292 million).

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

The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer after the first year, as well as premiums in respect of new business written during the period but only activated after 30 June 2007.

The total Health and Vitality new business annualised premium income written over the period was R2 677 million (June 2006: R2 612 million).

(4) Life new business is defined as policies which incepted during the reporting period and which are on risk at the valuation date.

The new business annualised premium income of R695 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 R155 million and servicing increases of R121 million was R971 million. Single premium business is included at 10% of the variance of the single premium.

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

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

Table 8: Embedded value assumptions

at 30 June

		2007	2006
Risk discount rate (%)			
– Health and Vitality		**11,75**	12,00
– Life		**11,75**	12,00
– Destiny Health		–	10,00
Medical inflation (%)			
South Africa		**7,75**	8,00
United States		–	Current levels reducing to 13,00% over the projection period
Expense inflation (%)			
South Africa		**4,75**	5,00
United States		–	3,00
Pre-tax investment return (%)			
South Africa	– Cash	**7,25**	7,50
	– Bonds	**8,75**	9,00
	– Equity	**10,75**	11,00
United States	– Bonds	–	3,00
Dividend cover ratio		**4,5 times**	4,5 times
Income tax rate (%)			
– South Africa		**29,00**	29,00
– United States Federal Tax Rate(1)		–	34,00

(1) Various additional State taxes also apply.

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

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

Renewal expense assumptions were based on the results of the latest expense and budget information. A notional allocation of corporate overhead expenses has been made to each of the subsidiary companies based on managements' view of each subsidiary's contribution to overheads. This includes allocations to the overseas operations (Destiny Health, Pruhealth and PruProtect) which have not been projected on a recurring basis in the embedded value due to the fact that the income from business sold under these initiatives has not been projected in the embedded value. The corporate overhead expense allocation to Destiny Health is not included under Destiny Health in the segmental income statement.

The investment return assumption was based on a single interest rate derived from the risk-free zero coupon yield curve. Other economic assumptions were set relative to this yield. The risk discount rate has been set relative to the risk-free rate, increased by a risk premium. The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

It was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 100% equities for the purposes of calculating the cost of capital at risk. Allowance has been made for tax and investment expenses in the calculation of the cost of capital.

Sensitivity to the embedded value assumptions

In order to illustrate the effect of using different assumptions, the sensitivity of the embedded value at 30 June 2007 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

R million	Shareholders' funds excluding assets under insurance contracts	Health and Vitality: Value in-force	Health and Vitality: Cost of capital	Health and Vitality: Cost of STC	Life: Value in-force	Life: Cost of capital	Life: Cost of STC	Embedded value	% change
Base	2 549	4 558	–	(107)	5 998	(32)	(140)	**12 826**	
Impact of:									
Risk discount rate + 1%	2 549	4 395	–	(102)	5 532	(42)	(128)	**12 204**	(5)
Risk discount rate – 1%	2 549	4 731	–	(112)	6 556	(20)	(155)	**13 549**	6
Lapses + 10%	2 549	4 475	–	(105)	5 667	(29)	(133)	**12 424**	(3)
Investment return – 1%(1)	2 549	4 558	–	(93)	5 673	(42)	(116)	**12 529**	(2)
Renewal expenses + 10%	2 549	4 051	–	(95)	5 935	(32)	(139)	**12 269**	(4)
Mortality and morbidity + 10%	2 549	4 558	–	(107)	5 450	(34)	(127)	**12 289**	(4)
Health and Vitality: Projection term + 1 year	2 549	4 788	–	(112)	5 998	(32)	(140)	**13,051**	2

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

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

Table 10: Value of new business sensitivities

R million	Health and Vitality: Value of in-force	Health and Vitality: Cost of capital	Health and Vitality: Cost of STC	Life: Value of in-force	Life: Cost of capital	Life: Cost of STC	Value of new business	% change
Base	71	–	(2)	639	(8)	(15)	**685**	
Impact of:								
Risk discount rate + 1%	62	–	(1)	517	(11)	(14)	**553**	(19)
Risk discount rate – 1%	80	–	(2)	787	(5)	(17)	**843**	23
Lapses + 10%	66	–	(2)	556	(7)	(14)	**599**	(13)
Investment return – 1%(1)	71	–	(1)	556	(11)	(12)	**603**	(12)
Renewal expenses + 10%	32	–	(1)	623	(8)	(15)	**631**	(8)
Mortality and morbidity + 10%	71	–	(2)	516	(9)	(14)	**562**	(18)
Health and Vitality: Projection term + 1 year	82	–	(2)	639	(8)	(15)	**696**	2
Acquisition expenses + 10%	53	–	(1)	605	(8)	(14)	**635**	(7)

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

REVIEW OF GROUP RESULTS

Gross inflows under management, increased 17% for the year ended 30 June 2007. Gross inflows under management includes flows of the schemes Discovery administers and 100% of the business conducted together with its joint venture partners.

Gross inflows under management

R million	June 2007	June 2006	% change
Discovery Health	**18 828**	16 542	14
Discovery Life	**2 357**	1 768	33
Discovery Vitality	**721**	654	10
Destiny Health	**1 449**	1 322	10
PruHealth	**556**	141	294
Gross inflows under management	**23 911**	20 427	17
Less: collected on behalf of third parties	**(17 338)**	(14 988)	16
Discovery Health	**(16 532)**	(14 507)	
Destiny Health	**(528)**	(411)	
PruHealth	**(278)**	(70)	
Gross income of Group	**6 573**	5 439	21

Earnings

The following table shows the main components of the increase in Group profit from operations excluding investment income for the year:

Earnings source

R million	June 2007	June 2006	% change
Discovery Health	**736**	655	12
Discovery Life	**707**	546	29
Discovery Vitality	**43**	41	5
PruProtect	**(36)**	–	–
Destiny Health	**(102)**	(151)	32
PruHealth	**(218)**	(146)	(49)
Group operating profit before investment income	**1 130**	945	20
Investment income	**175**	161	9
Realised gains on shareholders portfolios	**195**	157	24
Investment returns on assets backing policyholder liabilities	**151**	121	25
Fair value adjustment to liabilities under investment contracts	**(141)**	(121)	17
Profit from operations before BEE expenses	**1 510**	1 263	20

Headline earnings

Headline earnings in compliance with International Financial Reporting Standards (IFRS) increased by 33% excluding the impact of the BEE transaction.

Unrealised gains of R458 million on available-for-sale investments for the year have been taken directly to equity and are not included in earnings or headline earnings.

The reconciliation between earnings and headline earnings is shown below:

R million	June 2007	June 2006	% change
Net profit attributable to equity shareholders	**1 073**	669	60
Adjusted for:			
– realised profit on available-for-sale investments net of CGT	**(187)**	(139)	
– impairment of property and equipment	**–**	1	
Headline earnings	**886**	531	67
BEE expenses	**34**	161	
Headline earnings before BEE transaction	**920**	692	33
Headline earnings per share before BEE transaction (cents):			
– undiluted	**171,5**	130,8	31
– diluted	**168,4**	126,4	33
Headline earnings per share (cents):			
– undiluted	**165,2**	100,4	65
– diluted	**162,2**	97,0	67
Weighted number of shares in issue (000's)	**536 560**	528 946	
Diluted weighted number of shares (000's)	**546 579**	574 871	

Taxation

All South African entities are in a tax paying position. Destiny operations have significant tax losses but no deferred tax asset has been accounted for on the foreign losses incurred in the US.

During the 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 current year by R120 million, of which R52 million relates to prior years' tax assets not recognised.

Investments

Equity investments have increased due to additional investments and the continued strong performance of the equity markets. This has resulted in an increase in investment income.

Balance sheet

The increase in the assets arising from insurance contracts of R651 million is as a result of profitable new business written by Discovery Life.

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base.

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 IFRS2. 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 R34 million in the year ended 30 June 2007 (2006: R161 million) in accordance with the requirements of IFRS 2.

An additional R63 million (2006: R29 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.

Accounting policies

The annual financial statements have been prepared in accordance with IFRS as well as the South African Companies Act 61 of 1973, as amended, and are consistent with the accounting policies applied in the previous financial reporting period.

Directorate

Mr P K Harris was appointed as a non-executive director to the board of Discovery with effect from 15 February 2007.

Mr SD Whyte resigned and Mr A Pollard was appointed as an executive director to the board of Discovery with effect from 30 August 2007.

Dividend policy and capital

An interim dividend of 16 cents per share was paid on 2 April 2007.

The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirements of Discovery Life were R145 million (2006: R94 million) and were covered 10,7 times (2006: 14,0 times).

Dividend Declaration:

The board has declared a final dividend of 21 cents per share. The salient dates are as follows:

– Last date to trade "cum" dividend	Friday, 12 October 2007
– Date trading commences "ex" dividend	Monday, 15 October 2007
– Record date	Friday, 19 October 2007
– Date of payment	Monday, 22 October 2007

Share certificates may not be dematerialised or rematerialised between Monday, 15 October 2007 and Friday, 19 October 2007, both days inclusive.

Audit

The auditors, PricewaterhouseCoopers Inc., have issued their opinion on the Group financial statements for the year ended 30 June 2007. A copy of the auditors' unqualified report is available for inspection at the company's registered office.