Discovery

Unaudited interim financial results

for the six months ended 31 December 2003

Highlights

Operating profit +87% to R324,8 million

Attributable profit +57% to R135,3 million

Diluted headline earnings per share +22% following 36% additional shares in issue

Destiny Health expected to break-even in February 2004

Introduction

Discovery's performance for the six months under review was pleasing. The company employs a business methodology based on innovation, product leadership and operational and financial excellence to achieve its purpose of making people healthier and enhancing and protecting their lives. The period under review saw the successful continuation of this approach, resulting in strong organic growth across all of Discovery's businesses.

Discovery increased its operating profit by 87% to R324,8 million (2002: R173,3 million) while net profit attributed to shareholders grew 57% to R135,3 million (2002: R86,2 million). Diluted headline earnings per share increased by 22% to 26,2 cents (2002: 21,5 cents) despite a 36% increase in the number of shares in issue.

Destiny Health

The six months under review were important for Destiny Health. The company reduced its operating losses by 30% to $6,7 million (2002: $9,6 million), and increased new business by 59% to $31,3 million (2002: $19,7 million).

Importantly, the company set the difficult short term target of achieving break-even in its Illinois business by the start of 2004 and is expected to achieve this during the month of February – one month late of its target date. To this end, a significant focus was placed on the management of expenses, the acquisition of new business and a focus on managing the medical loss ratio. Not only was the company successful in achieving the set short term targets, but it also introduced significant structural changes that bode well for longer term success.

In addition to the breakeven goal, Destiny was focused on rolling out its joint ventures with Guardian Life Insurance Company of America in Illinois, and Tufts Health Plan in Massachusetts. It is expected that the impact of these ventures will only start being felt within the next few months.

The health care environment continues to evolve rapidly toward Destiny's Consumer-Driven Healthcare Model. Over the period under review, the amended Medicare legislation introduced the "Health Savings Account", which for the first time allows Americans to invest pre-tax dollars into a medical savings account – a structure that is central to the Destiny product design. The Health Savings Account was specifically mentioned by the US President in his State of the Union Address.

Discovery Health

Discovery Health's performance was pleasing. Operating profit grew by 20% to R214,4 million (2002: R178,6 million), and the number of lives under administration now exceeds 1,5 million. Lapse rates reduced to an effective 3,3% per annum, the lowest in Discovery Health's history.

New business reduced by 20% to R934,5 million (2002: R1 163,3 million), primarily due to an unusually high intake of members in December/January of the previous financial year, which arose from the legislated introduction of an open enrolment period in January of each year. As this was the first of these open enrolment periods, the inflow of members during December and January 2003 reflected significant pent-up demand.

Discovery Health's role is to provide access to quality care on a sustainable basis in an environment of change and complexity. The period under review was particularly pleasing in this regard: healthcare costs were kept under control, while statutory reserves within the Discovery Health Medical Scheme built up in line with that required – to over R1,6 billion. Despite the increased proportion of member contributions allocated to reserves, contribution rates increased from 2003 to 2004 in line with previous years. With falling levels of inflation, Discovery Health is acutely aware that the increasing gap between salary and medical inflation means that member expectations in terms of cost are not being met. However, given the performance of the Discovery Health Medical Scheme and the likelihood that the reserve requirements will be met by end 2004, single digit contribution increases are expected for 2005.

Discovery Life

Discovery Life's performance exceeded expectation. Profit increased to R105,1 million (2002: R16,8 million), and the value of in-force business increased by 89% to R946,3 million (2002: R500,0 million). Annualised new business premium income increased by 35% to R290,1 million (2002: R214,6 million). The number of policyholders grew to over 100 000.

The company's approach to life insurance has now become the industry norm and it has established a leadership position in a market that is transforming toward its approach. It's products exclude any investment element and therefore it is not only immunised against the fall-out of poor investment returns, but also against the fluctuating financial performance resulting from them. The company is well positioned for further innovation to capitalise on the platform it has created.

The quality of business written has been exceptional and over the period, focus was applied to maintaining and enhancing this. The average premium and the ancillary benefits per policy remain significantly above the industry average, which has helped to increase the profitability per policy. Notably, the company's mortality and morbidity experience was better than expected. Increasing success is being achieved through the integration with other Discovery products.

Prospects

Discovery is confident of continued growth, with robust performances expected from its established businesses and increasing contributions from start-ups.

By order of the board

LL Dippenaar
Chairman

A Gore
Chief Executive Officer

26 February 2004

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J M Robertson (Chief Operating Officer), Dr BA Brink**, J P Burger,
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**Appointed 19 February 2004 #Resigned effective 5 December 2003

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