# Group consolidated balance sheet

| at 31 December 2003  |                                  |                                |
|--|----------------------------------|--------------------------------|
|  | December<br>2003                 | June<br>2003                   |
| R million  | Unaudited                        | Audited                        |
| ASSETS   |                                  |                                |
| Non-current assets   | 1 422,1                          | 1 015,9                        |
| Fixed assets<br>Intangible assets<br>Investments<br>Loans receivable   | 224,8<br>38,0<br>1 082,0<br>77,3 | 221,2<br>35,5<br>685,0<br>74,2 |
| Assets under insurance contracts                                       | 1 054,0                          | 772,4                          |
| Current assets   | 1 070,7                          | 1 552,7                        |
| Accounts receivable<br>Deferred tax asset<br>Cash and cash equivalents | 255,1<br>10,3<br>805,3           | 209,0<br>6,7<br>1 337,0        |
| Total assets   | 3 546,8                          | 3 341,0                        |
| EQUITY AND LIABILITIES   |                                  |                                |
| Capital and reserves   | 2 110,1                          | 1 036,9                        |
| Share capital and share premium Reserves                               | 1 277,7<br>832,4                 | 428,9<br>608,0                 |
| Minority interest  | 127,4                            | 127,4                          |
| Liabilities under insurance contracts                                  | 14,0                             | 9,5                            |
| Liabilities under investment contracts                                 | 402,9                            | 370,2                          |
| Non-current liabilities  | 312,4                            | 296,7                          |
| Deferred tax liability   | 14,6                             | 25,9                           |
| Current liabilities  | 565,4                            | 1 474,4                        |
| Short-term loan<br>Other current liabilities                           | 565,4                            | 875,9<br>598,5                 |
| Total equity and liabilities   | 3 546,8                          | 3 341,0                        |
| Net asset value per share (cents)<br>Number of shares in issue (000's) | 411,0<br>513 464                 | 274,4<br>377 876               |

## Group consolidated statement of gross inflows under management

for the six months ended 31 December 2003

| R million  | ended<br>December<br>2003<br>Unaudited | ended<br>December<br>2002<br>Unaudited | Change<br>% | Year ended<br>June 2003<br>Audited |
|--|--|--|-------------|------------------------------------|
| Gross inflows under management<br>Less: Collected on behalf of third parties | 6 392,6<br>4 372,7                     | 4 808,7<br>2 962,7                     | 33          | 10 943,7<br>7 190,0                |
| Gross income of group  | 2 019,9                                | 1 846,0                                |             | 3 753,7                            |

### Group consolidated income statement for the six months ended 31 December 2003

|  | Six months        | Six months        |             |                  |
|--|-------------------|-------------------|-------------|------------------|
|  | ended<br>December | ended<br>December |             | Year ended       |
|  | 2003              | 2002              | Change<br>% | June 2003        |
| Rmillion   | Unaudited         | Unaudited         | %           | Audited          |
| Gross income of group<br>Less: Reinsurance premiums                                    | 2 019,9<br>167,7  | 1 846,0<br>161,0  |             | 3 753,7<br>341,9 |
| Net income<br>Fotal investment income  | 1 852,2<br>64,0   | 1 685,0<br>45,9   |             | 3 411,8<br>96,2  |
| air value adjustments<br>Other investment income                                       | (0,1)<br>64,1     | (15,5)<br>61,4    |             | (15,5<br>111,7   |
| NCOME  | 1 916,2           | 1 730,9           |             | 3 508,0          |
| Claims and policyholder benefits   | 658,4             | 725,0             |             | 1 366,0          |
| Commissions  | 279.0             | 217,8             |             | 437,4            |
| Operating and administration expenses<br>/itality benefits                             | 787,0<br>144,1    | 674,5<br>104,3    |             | 1 437,0<br>227,4 |
| OUTGO  | 1 868,5           | 1 721,6           |             | 3 467,8          |
|  | ,                 | ,                 |             |                  |
| [ransfers  | 277,1             | 164,0             |             | 420,2            |
| From assets/liabilities under<br>nsurance contracts<br>To health insurance durational  | 277,1             | 201,0             |             | 420,2            |
| and AIDS reserves  | -                 | (37,0)            |             |                  |
| Operating profit   | 324,8             | 173,3             |             | 460,4            |
| ocal operations<br>Foreign operations  | 402,6<br>(77,8)   | 263,2<br>(89,9)   | 53          | 628,2<br>(167,8  |
| inancing costs<br>Foreign exchange loss – unrealised                                   | (30,5)<br>(36,5)  | (11,6)            |             | (25,2<br>(17,1   |
| Profit before abnormal items<br>und taxation<br>Abnormal items                         | 257,8             | 161,7             | 59          | 418,1<br>120,2   |
| Profit before taxation   | 257,8             | 161,7             | 59          | 538,3            |
| <b>Taxation</b>  | 123,4             | 75,5              |             | 182,2            |
| - Operating profit<br>- Abnormal items   | 123,4             | 75,5              |             | 146,1<br>36,1    |
| Profit after taxation<br>Minority share of loss  | 134,4<br>0,9      | 86,2              |             | 356,1<br>6,1     |
| Net profit attributable to<br>ordinary shareholders                                    | 135,3             | 86,2              | 57          | 362,2            |
| Headline earnings per share (cents)  | ,                 |                   |             | ,                |
| - undiluted<br>- diluted   | 27,2              | 21,5              | 27<br>22    | 94,1             |
| - anutea<br>Basic earnings per share (cents)   | 26,2              | 21,5              | 22          | 88,2             |
| - undiluted  | 27,4              | 22,8              | 20          | 95,9             |
| - diluted<br>Headline earnings per share before<br>Abnormal items and foreign exchange | 26,4              | 22,7              | 16          | 89,8             |
| oss (cents)  | 2.1               | 2.5               |             |                  |
| - undiluted<br>- diluted   | 34,6<br>33,0      | 21,5<br>21,5      | 61<br>54    | 76,3<br>72,1     |
| Basic earnings per share before  | 33,0              | 21,3              | 54          | 72,1             |
| bnormal items and foreign exchange   |                   |                   |             |                  |
| oss (cents)<br>- undiluted   | 34,9              | 22,8              | 53          | 78,1             |
| - diluted  | 33,3              | 22,7              | 47          | 73,7             |
|  |                   |                   |             |                  |
| Weighted number of shares<br>n issue (000's)   | 492 979           | 377 876           |             | 377 876          |

# Financial commentary

Accounting policies
The principal accounting policies and methods of computation followed in the six months to 31 December 2003 are consistent with those followed at 30 June 2003.

The unaudited interim financial statements comply with Statements of Generally Accepted Accounting

In line with Discovery's current policy, no dividend has been declared.

Comparative figures
The following changes have been made to the comparative figures:
Foreign exchange losses have been shown separately on the face of the income statement in order to provide more meaningful information. An adjusted headline earnings per share before abnormal items and foreign exchange losses has also been shown.

In line with industry practice, the accounting policy for health insurance and group life acquisition costs was changed during the 2003 financial year from deferring acquisition costs to expensing these costs as incurred. The impact of this change in accounting policy on the results for the six months ended 31 December 2002 is

 A reduction of the retained income at 30 June 2002 of R196,3 million
 A reduction in net profit after tax for the six months ended 31 December 2002 of R6,9 million
 A reduction in net profit after tax for the six months ended 31 December 2002 of R6,9 million Discovery implemented the accounting standard Financial Instruments: Recognition and Measurement AC133 in preparation of the financial statements for the year ended 30 June 2003. The impact of the adoption of AC133 on the results for the six months ended 31 December 2002 is an increase in net profit after tax of R2,2 million.

New business annualised premium income New business annualised premium income of the group decreased 8% for the six months under review to R1 473,4 million (2002: R1 597,7 million) and is made up as follows:

|  | 2003                            | 2002                              | Change %                 |
|--|---------------------------------|-----------------------------------|--------------------------|
| Health (Rm) Vitality (Rm) Life (Rm) Destiny (Rm) | 934,5<br>26,4<br>290,1<br>222,4 | 1 163,3<br>32,9<br>214,6<br>186,9 | (20)<br>(20)<br>35<br>19 |
| Total (Rm)                                       | 1 473,4                         | 1 597,7                           | (8)                      |
| Destiny (USDm)                                   | 31,3                            | 19,7                              | 59                       |
| TI I : 11 Id. 120 Iv. 1 : (                      | D1 10( ) 'II' (                 | d · d                             | 1 1 2 1 D                |

The decrease in Health and Vitality new business from R1 196,2 million for the six months ended 31 December 2002 to R960,9 million for the six months ended 31 December 2003 is attributable to the regulatory changes (Section 29A(6) of the Medical Schemes Act) promulgated in 2002 which allowed groups to join medical schemes free of underwriting. This led to a higher than anticipated influx of new business in 2002. This legislation persists but the effect is now in line with our expectations.

Discovery Life's new business increased 35% for the six months under review to R290,1 million (2002: R214.6 million) building further on its leadership restition in the rick only assurance market and proving its value.

R214,6 million) building further on its leadership position in the risk-only assurance market and proving its value

proposition to clients.

Destiny's new business grew 59% to USD31,3 million (2002: USD19,7 million) bearing testimony to a continued focus on marketing and distribution activities and showing early signs of the benefits of the joint ventures. The strengthening of the Rand against the Dollar over the six month period translated into a 19% increase in new business in Rand terms over the six-month period.

Gross inflows under management Gross inflows under management includes flows into the Discovery Health Medical Scheme ("DHMS") to demonstrate the scale of activity of the Discovery group and to provide direct comparison of activity to prior periods. All lines of business showed satisfactory growth in gross inflows under management.

| R million          | 2003             | 2002             | Change % |
|--------------------|------------------|------------------|----------|
| Health<br>Vitality | 5 596,0<br>185,4 | 4 314,9<br>139,5 | 30<br>33 |
| Life Destiny       | 384,3<br>226,9   | 196,2<br>158,1   | 96<br>44 |
| ,                  | 6 392,6          | 4 808,7          | 33       |
|                    |                  |                  |          |

| Operating profit – local operations                  |                        |                      |                  |
|--|------------------------|----------------------|------------------|
| R million  | 2003                   | 2002                 | Change %         |
| Health<br>Vitality<br>Life                           | 214,4<br>20,2<br>105,1 | 178,6<br>7,3<br>16,8 | 20<br>177<br>526 |
| Profit before investment income<br>Investment income | 339,7<br>62,9          | 202,7<br>60,5        | 68<br>4          |
| Operating profit from local operations               | 402,6                  | 263,2                | 53               |

# Group consolidated cash flow statement

for the six months ended 31 December 2003

|  | Six months<br>ended<br>December    | Six months<br>ended<br>December     | Year ended                         |
|--|------------------------------------|-------------------------------------|------------------------------------|
| R million  | 2003<br>Unaudited                  | 2002<br>Unaudited                   | June 2003<br>Audited               |
| Operating profit before working capital changes  | 58,1                               | 17,6                                | 57,1                               |
| Health and Vitality<br>Life<br>Destiny   | 303,6<br>(164,0)<br>(81,5)         | 271,5<br>(158,8)<br>(95,1)          | 486,2<br>(266,1)<br>(163,0)        |
| Working capital changes  | (62,4)                             | (94,3)                              | 158,3                              |
| Cash (utilised)/generated from operations<br>Taxation paid<br>Investment income<br>Interest paid | (4,3)<br>(131,6)<br>54,0<br>(16,4) | (76,7)<br>(110,3)<br>51,4<br>(11,6) | 215,4<br>(180,6)<br>90,1<br>(23,9) |
| CASH FLOW FROM OPERATING ACTIVITIES  | (98,3)                             | (147,2)                             | 101,0                              |
| CASH FLOW FROM INVESTING<br>ACTIVITIES   | (358,8)                            | (138,1)                             | (199,5)                            |
| CASH FLOW FROM FINANCING<br>ACTIVITIES   | (61,0)                             | 145,4                               | 1 094,7                            |
| Net (decrease)/increase in cash and<br>cash equivalents<br>Cash and cash equivalents at          | (518,1)                            | (139,9)                             | 996,2                              |
| beginning of year<br>Effects of exchange rate changes on cash                                    | 1 337,0                            | 354,4                               | 354,4                              |
| and cash equivalents   | (13,6)                             | (7,8)                               | (13,6)                             |
| Cash and cash equivalents at end of year   | 805,3                              | 206,7                               | 1 337,0                            |

### Group consolidated statement of changes in equity for the six months ended 31 December 2003

| R million   | Share<br>capital | Share<br>premium     | Investment reserve | Retained<br>earnings    | Translation reserve | Hedging reserve | Total                   |
|---|------------------|----------------------|--------------------|-------------------------|---------------------|-----------------|-------------------------|
| 31 December 2003<br>Balance at 1 July 2003<br>Net profit for the period<br>Dividends paid to                  | 0,4              | 428,5<br>-           | (4,4)              | 634,5<br>135,3          | (7,7)<br>-          | (14,4)          | 1 036,9<br>135,3        |
| Destiny Health preference<br>shareholders<br>Unrealised gains on investments<br>Realised gains on investments | -<br>-           | -<br>-               | 75,3               | (0,6)                   | <u>-</u>            | <u>-</u>        | (0,6)<br>75,3           |
| transferred to income statement<br>Transfer from hedging reserve<br>Preliminary and share                     | -<br>-           | -<br>-               | (1,4)              | -<br>-                  | -<br>-              | -<br>14,4       | (1,4)<br>14,4           |
| issue expenses<br>Translation of foreign subsidiary<br>Issue of capital                                       | -<br>0,9         | (27,9)<br>-<br>875,8 | -<br>-<br>-        | -<br>-<br>-             | -<br>1,4<br>-       | -<br>-<br>-     | (27,9)<br>1,4<br>876,7  |
| Balance at 31 December 2003   | 1,3              | 1 276,4              | 69,5               | 769,2                   | (6,3)               | -               | 2 110,1                 |
| 31 December 2002 Balance at 1 July 2002 Implementation of AC133 Net profit for the period Dividends paid to   | 0,4<br>-<br>-    | 426,7<br>-<br>-      | 30,8<br>-<br>-     | 301,5<br>(16,6)<br>86,2 | (15,1)<br>-<br>-    | -<br>-<br>-     | 744,3<br>(16,6)<br>86,2 |
| Destiny Health preference<br>shareholders<br>Unrealised losses on investments<br>Realised gains on            | _<br>_           | -<br>-               | (21,4)             | (2,1)                   | _<br>_              | <u> </u>        | (2,1)<br>(21,4)         |
| investments transferred to<br>income statement<br>Translation of foreign subsidiary<br>Issue of capital       | -<br>-<br>*      | -<br>-<br>1,7        | (6,9)<br>-<br>-    | -<br>-<br>-             | (9,1)<br>-          | -<br>-<br>-     | (6,9)<br>(9,1)<br>1,7   |
| Balance at 31 December 2002   | 0,4              | 428,4                | 2,5                | 369,0                   | (24,2)              | _               | 776,1                   |
|   |                  |                      |                    |                         |                     |                 |                         |

\* Amount is less than R100 000

Segmental information for the six months ended 31 December 2003

| Tor the 31x Montals chaca 31 December 2003  |   |  |  |                                    |  |  |  |
|---|---|--|--|------------------------------------|--|--|--|
| R million   | South<br>Africa                                   | ealth<br>United<br>States of<br>America        | Life   | Vitality                           | Total  |  |  |
| Gross inflows under management  | 5 596,0   | 226,9  | 384,3  | 185,4                              | 6 392,6  |  |  |
| Gross income Reinsurance Fair value adjustments Expenses, commissions and claims Transfer from balances under insurance contracts | 1 285,2<br>(44,1)<br>-<br>(1 026,7)<br>-<br>214,4 | 165,0<br>(43,7)<br>-<br>(200,3)<br>-<br>(79,0) | 384,3<br>(79,9)<br>(0,1)<br>(476,3)<br>234,4<br>62,4 | 185,4<br>-<br>(165,2)<br>-<br>20,2 | 2 019,9<br>(167,7)<br>(0,1)<br>(1 868,5)<br>234,4<br>218,0 |  |  |
| Return on assets under insurance contracts  | _   | _  | 42,7   | _                                  | 42,7   |  |  |
| Operating profit before investment income   | 214,4   | (79,0)   | 105,1  | 20,2                               | 260,7<br>64,1  |  |  |
| Operating profit  |   |  |  |                                    | 324,8  |  |  |

## for the six months ended 31 December 2002

|   | Н                                   | ealth                          |                                      |                       |   |
|---|-------------------------------------|--------------------------------|--------------------------------------|-----------------------|---|
| R million   | South<br>Africa                     | United<br>States of<br>America | Life                                 | Vitality              | Total                                     |
| Gross inflows under management  | 4 314,9                             | 158,1                          | 196,2                                | 139,5                 | 4 808,7                                   |
| Gross income Reinsurance Fair value adjustments Expenses, commissions and claims Transfer (to)/from balances under investment and insurance contracts | 1 381,9<br>(74,6)<br>-<br>(1 091,7) | 128,4<br>(53,3)<br>(165,9)     | 196,2<br>(33,1)<br>(15,5)<br>(331,8) | 139,5<br>-<br>(132,2) | 1 846,0<br>(161,0)<br>(15,5)<br>(1 721,6) |
| induate conduct   | 178,6                               | (90,8)                         | (8,5)                                | 7,3                   | 86,6                                      |
| Return on assets under insurance contracts  | _                                   | _                              | 25,3                                 | _                     | 25,3                                      |
| Operating profit before investment income   | 178,6                               | (90,8)                         | 16,8                                 | 7,3                   | 111,9                                     |
| Investment income   |                                     |                                |                                      |                       | 61,4                                      |
| Operating profit  |                                     |                                |                                      |                       | 173.3                                     |

Discovery Health

The impact of the resolution with the Council of Medical Schemes on the results of the health operations of Discovery, was a reduction in gross income with a corresponding decrease in reinsurance premiums and policyholder benefits. Although the resolution resulted in a decrease in gross income there was an increase of

20% in operating profit before investment income. This is attributable to:
• An increase in lives covered of 19,9% to 1 505 896 (2002: 1 255 797)

Administration and marketing efficiencies
 The operating profit of Discovery Health is weighted to the second half of the financial year as premium increase

anniversaries are on 1 January each year while salary increases occur on 1 July each year. The trustees of DHMS have applied for a 10% quota share reinsurance treaty with Discovery Life to commence on 1 January 2004 for which approval has not yet been received. Discovery Life

Discovery Life's increase in operating profit before investment income is attributable to the following:

Significant new business

Better than anticipated mortality and morbidity experience The number of individual policyholders insured grew to 100 218 (2002: 46 340). Group lives covered increased

to 34 968 (2002: 28 991). Discovery Vitality

Discovery Vitality's operating profit increased to R20,2 million (2002: R7,3 million) resulting from an enhanced product offering increasing Vitality's membership. With effect from 1 January 2004, Discovery Vitality has launched further exciting benefits which are expected to lead to a reduction in the profitability of Vitality in the second half of the financial year. Destiny Health

Destiny Health's operating losses before investment income, finance costs and non-recurring expenses reduced by 48% to R47,1 million for the six month period ended 31 December 2003 (2002: R90,8 million). This is attributable to the strengthening of the Rand against the Dollar, improved claims experience as a result of better risk management and the achievement of efficiencies in cost control as well as the growth in lives covered to 24 698 (2002: 14 840).

Non-recurring costs include set-up costs of R17,5 million incurred in respect of the joint ventures entered into with Guardian and Tufts. The R36,5 million exchange loss arises on the R279,2 million loan entered into by Destiny with RMB International (Dublin) Limited. 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

Headline earnings per share

Headline earnings per share is calculated as follows:

| R million   | December<br>2003 | December<br>2002 | June<br>2003 |
|---|------------------|------------------|--------------|
| Net profit attributable to ordinary shareholders<br>Adjusted for realised profit on available for | 135,3            | 86,2             | 362,2        |
| sale financial instruments  | (1,2)            | (4,8)            | (6,7)        |
| Headline earnings   | 134,1            | 81,4             | 355,5        |
| Foreign exchange loss – unrealised  | 36,5             | _                | 17,1         |
| Abnormal items  | ·-               | -                | (84,1)       |
| Headline earnings before abnormal items and foreign exchange loss                                 | 170,6            | 81,4             | 288,5        |
| Balance sheet   |                  |                  |              |

The short-term loan of R875 million owing to FirstRand Limited as at 30 June 2003 that arose in terms of the claw-back offer was repaid by the issue of 134 615 385 new Discovery shares. These shares were listed on the JSE on 28 July 2003. The minority interest of R127,4 million in the balance sheet comprises the Series A preference shares of Destiny

The increase in the assets under insurance contracts of R281,6 million is as a result of the significant increase in profitable new business written by Discovery Life.

Investments have increased due to the investment of an additional R300 million into equity portfolios during October 2003 coupled with the strong performance of the equity markets. Unrealised gains of R75,3 million on

investments have been taken directly to reserves. Cash and cash equivalents at 30 June 2003 is R805,3 million. As at 31 December, R103,5 million of cash is held by Destiny Health Insurance Company as part of its statutory capital.

# Group consolidated embedded value statement

for the six months ended 31 December 2003

| GROUP EMBEDDED VALUE                                     |                           |                           |             |                       |                                      |
|--|---------------------------|---------------------------|-------------|-----------------------|--------------------------------------|
| R million  | At<br>31 December<br>2003 | At<br>31 December<br>2002 | Change<br>% | At<br>30 June<br>2003 | At<br>30 June<br>2003                |
|  |                           |                           |             |                       | ustrative, after<br>capital raising) |
| Shareholders' funds<br>Value of in-force business before | 2 110,1                   | 776,1(2)                  |             | 1 036,9               | 1 885,7                              |
| cost of capital <sup>(3)</sup><br>Cost of capital        | 4 401,5<br>(289,7)        | 3 126,1<br>(192,1)        | 41          | 4 021,1<br>(190,2)    | 4 021,1<br>(190,2)                   |
| Discovery Holdings embedded value                        | 6 221,9                   | 3 710,1                   | 68          | 4 867,8               | 5 716,6                              |
| Number of shares millions<br>Embedded value per share    | 513,5<br>R12,12           | 377,9<br>R9,82            | 23          | 377,9<br>R12,88       | 512,5<br>R11,15                      |

Diluted embedded value per share R11,27

(1) In June 2003, Discovery proceeded with a claw-back offer to raise R875 million at an issue price of R6,50 per share. The shares were issued and listed on the JSE on 28 July 2003. At 30 June 2003, the capital raised was reflected as a short-term loan owing to FirstRand Limited, but is now included in shareholders' funds. The embedded value at 30 June 2003 has been restated for illustrative purposes to demonstrate the impact of including the capital raised (net of preliminary and share issue expenses) in shareholders' funds, and includit the shares issued in the calculation of embedded value per share.

(2) The accounting policy for health insurance and group life acquisition costs was changed during the 2003 financial year from deferring acquisition costs to expensing these costs as incurred. The deferred acquisition cost asset was previously reflected as an adjustment to take value of shareholders' funds. The shareholders' funds balance at 31 December 2002 has been restated in line with the changes to the statement of changes in equity.

(3) The pre-paid commission expense was previously reflected as an adjustment to shareholders' funds. It has now been fully expensed. The asset (which amounted to R76,7 million at 31 December 2002 and R17,6 million at 30 June 2003) has been deducted from the value of inforce business at 30 June 2003 and 31 December 2002 to avoid the double counting of expense loadings.

#### VALUE OF IN-FORCE BUSINESS

for the six months ended 31 December 2003.

| R million           | Value before<br>cost of capital | Cost of capital | Value after<br>cost of capital |
|---------------------|---------------------------------|-----------------|--------------------------------|
| Health and Vitality | 3 045,4                         | _(1)            | 3 045,4                        |
| Life '              | 1 203,7                         | (257,4)         | 946,3                          |
| Destiny Health (2)  | 152,4                           | (32,3)          | 120,1                          |
| Total '             | 4 401,5                         | (289,7)         | 4 111,8                        |

The trustees of the Discovery Health Medical Scheme have applied for a 10% quota share reinsurance treaty with Discommence on 1 January 2004. As the Scheme has not yet received approval for the treaty, both potential risk profits and the of any capital requirements have been excluded from the embedded value.
 Figures for Destiny Health reflect Discovery's 95,6% shareholding in Destiny Health at 31 December 2003.

**EMBEDDED VALUE EARNINGS** 

| R million   | 6 months to<br>31 December<br>2003 | 6 months to<br>31 December<br>2002(1) | 12 months to<br>30 June 2003 |
|---|------------------------------------|---------------------------------------|------------------------------|
| Embedded value at end of period<br>Embedded value at beginning of period                  | 6 221,9<br>4 867,8                 | 3 710,1<br>3 321,0                    | 4 867,8<br>3 321,0           |
| Increase in embedded value<br>Net issue of capital  | 1 354,1<br>(848,8)                 | 389,1<br>(1,7)                        | 1 546,8<br>(1,8)             |
| Dividends paid to Destiny Health preference shareholders Implementation of new accounting | 0,6                                | 2,1                                   | 12,6                         |
| standards (2) Transfer to hedging reserve (3)   | (14,4)                             | 16,6<br>-                             | 16,6<br>14,4                 |
| Embedded value earnings   | 491,5                              | 406,1                                 | 1 588,6                      |

- The value of Shareholders' Funds at 31 December 2002 has been restated in line with the adjustments to the statement of changes in equity
  As a result, the embedded value earnings for the prior period has been adjusted.
   Refer to the commentary to the financial statements regarding Discovery's adoption of AC 133.
   This item relates to a cash flow hedge that was taken out to reduce exposure to currency risk on capital inflows to Destiny Health.

ADONESITE OF EMPEDDED VALUE FARMINGS

| R million   | 6 months to<br>31 December<br>2003 | 6 months to<br>31 December<br>2002 | Change<br>% | 12 months to<br>30 June<br>2003 |
|---|------------------------------------|------------------------------------|-------------|---------------------------------|
| Total profit from new business (at point of sale) Profit from existing business | 357,9                              | 275,5                              | 30          | 669,6                           |
| * Expected return<br>* Change in methodology                                    | 272,3                              | 241,3                              |             | 500,5                           |
| * Experience variances Adjustment for minority interest in                      | (261,7)<br>6,9                     | (182,8)<br>74,1                    |             | (0,1)<br>365,8                  |
| Destiny Health<br>Interest on loan capital                                      | 3,7 (25,2)                         | _<br>_                             |             | (2,3)                           |
| Return on shareholders' funds (2)   | 137,6                              | (2,0)                              |             | 55,1                            |
| Embedded value earnings   | 491,5                              | 406,1                              |             | 1 588,6                         |

METHODOLOGY AND ASSUMPTION CHANGES

# for the six months ended 31 December 2003

| R million                               | and Destiny Health | Life    | Total   |  |
|---|--------------------|---------|---------|--|
| Modelling changes<br>Global linkage (1) | _                  | (66,3)  | (66,3)  |  |
| Global linkage (1)                      |                    | (84,7)  | (84,7)  |  |
| Lapses                                  | (25,0)             | `       | (25,0)  |  |
| Economic                                | 16,9               | (3,3)   | 13,6    |  |
| Expenses                                | (5,4)              | (34,8)  | (40,2)  |  |
| Mortality and morbidity                 | (4,1)              | 5,5     | 1,4     |  |
| Tax (2)                                 | (53,6)             | _       | (53,6)  |  |
| Other                                   | (2,5)              | (4,4)   | (6,9)   |  |
| Total                                   | (73,7)             | (188,0) | (261,7) |  |
|   |                    |         |         |  |

The global linkage benefit basis was strengthened in the light of recent experience and exchange rate volatility
 The tax assumption change reflects a higher average VAT rate.

## **EXPERIENCE VARIANCES for the six months ended 31 December 2003**

| EXITERIES VARIANCES for the six months chack of December 2005 |                                     |        |        |  |
|---|-------------------------------------|--------|--------|--|
| R million   | Health, Vitality and Destiny Health | Life   | Total  |  |
| Renewal expenses  | (6,2)                               | (2,3)  | (8,5)  |  |
| Other expenses (1)  | (79,7)                              | _      | (79,7) |  |
| Health administration fee and                                 |                                     |        |        |  |
| Life premium increase   | (20,4)                              | 11,3   | (9,1)  |  |
| Extended modelling term (2)                                   | 68,1                                | 0,8    | 68,9   |  |
| Lapses  | 28,4                                | (11,4) | 17,0   |  |
| Medical inflation (3)   | 14,5                                |        | 14,5   |  |
| Policy alterations  | (1,6)                               | 64,7   | 63,1   |  |
| Exchange rate movements                                       | (13,0)                              | _      | (13,0) |  |
| Mortality and morbidity                                       | (15,9)                              | 18,6   | 2,7    |  |
| Quota share reinsurance treaty (4)                            | (4,4)                               | (13,4) | (17,8) |  |
| Öther (5)   | (10,5)                              | (20,7) | (31,2) |  |
| Total   | (40.7)                              | 47.6   | 6.9    |  |

The expense experience variance for Health, Vitality, and Destiny Health includes a negative variance relating to non-recurring expenses of R38,3 million. In addition, a large proportion of Health and Destiny Health new business was written during the period but only activated on I January 2004 – outside of the valuation period. A negative experience variance of R41,4 million arises in respect of the acquisition expenses incurred for these members who are not included in the embedded value calculation.
 The projection term for Health, Vitality, Destiny Health, and Group Life at 31 December 2003 has not been changed from that used at 30 June 2003. Thus, an experience variance arises because the total term of the in-force business is effectively increased by 6 months.
 The positive medical inflation variance is the result of higher than expected Health and Destiny Health contribution increases.
 The 10% quota share reinsurance treaty for 2004 which was previously modelled has not been modelled in the 31 December 2003 calculation as the Scheme has not yet received approval for the treaty. The Life product cost of capital has increased due to the manner in which the cost of capital was previously shared between the Life and Health products.
 Includes a R36,5 million unrealised foreign exchange loss arising on a R279,2 million loan entered into by Destiny Health with RMB International (Dublin) Limited.

6 months to

**EMBEDDED VALUE OF NEW BUSINESS** 6 months to

| R million  | 31 December<br>2003 | 31 December<br>2002 | Change<br>% | 30 June<br>2003 |
|--|---------------------|---------------------|-------------|-----------------|
| Health and Vitality  |                     |                     |             |                 |
| Gross profit from new business at point of sale<br>Cost of capital | 42,9                | 76,5<br>(6,3)       |             | 237,9<br>(3,2)  |
| Net profit from new business at point of sale                      | 42,9                | 70,2                | (39)        | 234,7           |
| New business annualised premium income (1)                         | 376,0               | 459,8               | (18)        | 1 834,2         |
| Life   |                     |                     |             |                 |
| Gross profit from new business at point of sale Cost of capital    | 370,6<br>(63,3)     | 218,6<br>(20,3)     |             | 493,9<br>(75,6) |
| Net profit from new business at point of sale                      | 307,3               | 198,3               | 55          | 418,3           |
| New business annualised premium income (2)                         | 213,6               | 188,8               | 13          | 354,8           |
| Annualised profit margin (3)                                       | 12,1%               | 9,6%                |             | 13,1%           |
| Destiny Health   |                     |                     |             |                 |
| Gross profit from new business at point of sale<br>Cost of capital | 14,8<br>(7,1)       | 16,0<br>(9,0)       |             | 40,5<br>(23,9)  |
| Net profit from new business at point of sale                      | 7,7                 | 7,0                 | 10          | 16,6            |
| New business appualised premium income (4)                         | 137 3               | 145.0               | (5)         | 356.1           |

New business annualised premium income (4) 137,3 (1) Health new business annualised premium income is the gross medical scheme contribution. For embedded value purposes, Health new business is defined as 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 31 December 2003 – outside of the valuation period. These members are not included in the calculation of the value of new business. The total Health and Vitality new business annualised premium income written over the period was R960,9 million (December 2002: R1 196,2 million). The reduction in the new business margin for Health and Vitality is due to the increase in sales of lower margin business, particularly following the launch of the KeyCare plans on 1 January 2003.

(2) Life new business annualised premium income is net of automatic premium increases in respect of existing business.

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

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 31 December 2003 – outside of the valuation period. These members are not included in the calculation of the value of new business. The total Destiny Health new business annualised premium income written over the period was R222,4 million (December 2002: R186,9 million).

31 December 31 December

**EMBEDDED VALUE ASSUMPTIONS** 

|   | (%)            | (%)            | (%)            |
|---|----------------|----------------|----------------|
| Risk discount rate  - Health and Vitality  - Life product  - Destiny Health Medical inflation | 13,50          | 16,00          | 13,50          |
|   | 12,50          | 14,00          | 12,50          |
|   | 10,00          | 10,00          | 10,00          |
| South Africa United States  | 8,50           | 10,00          | 8,50           |
|   | Current levels | Decreasing     | Current levels |
|   | reducing to    | linearly from  | reducing to    |
|   | 11,50%         | 14,25% to      | 11,50%         |
|   | over the       | 9,75% over     | over the       |
| Expense inflation   | projection     | the projection | projection     |
|   | period         | period         | period         |
| South Africa<br>United States<br>Pre-tax African  | 5,50<br>5,00   | 7,00<br>6,00   | 5,50<br>6,00   |
| South Africa — cash   | 8,00           | 9,50           | 8,00           |
| — bonds   | 9,50           | 11,00          | 9,50           |
| — equity  | 11,50          | 13,00          | 11,50          |
| United States — bonds   | 2,00           | 2,00           | 2,00           |
| Income tax rate  - South Africa  - United States Federal Tax Rate (1)                         | 30,00          | 30,00          | 30,00          |
|   | 34,00          | 34,00          | 34,00          |

34,00 (1) Various additional State taxes also apply. Based on the projected utilisation of Destiny Health's assessed tax loss to date, it is assumed that no income tax will be payable over the projection term.

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, as were the Destiny Health morbidity assumptions. The Destiny Health lapse assumptions were based on the results of recent experience investigations as well as future expectations regarding scheme renewals. Renewal expense assumptions were based on the results of the latest expense and budget information. The investment return assumption was determined with reference to the market yield to maturity on long-dated government bonds. Other economic assumptions were set relative to this yield.

It was assumed that the capital adequacy requirements in future years will be backed by surplus assets consisting of 70% equities and 30% fixed interest securities for the purposes of calculating the cost of capital at risk.

The embedded value of Discovery at 31 December 2003 is calculated as the sum of the following components:

• The excess assets over liabilities at the valuation date, and

• The value of in-force business at the valuation date (less an allowance for the cost of capital).

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. The value of new business is determined at the point of sale as 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.

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Tillinghast, international consulting actuaries, a business of Towers Perrin, have reviewed the methodology and assumptions used to determine the value of in-force business and the value of new business and have confirmed that, overall, they are reasonable.

12 months to