

# **DE BEERS BENEFIT SOCIETY**

Registered in terms of the Medical Schemes Act  
1998 as amended, under number 29/4/2/1068

## **ANNUAL REPORT**

**31 DECEMBER 2008**



A registered medical scheme  
Registration no. 29/4/2/1068

# **DE BEERS BENEFIT SOCIETY**



## **ANNUAL REPORT 2008 GENERAL INFORMATION**

### **Board of Trustees in office during the year under review**

#### **Trustees nominated by De Beers Group Services (Proprietary) Limited**

Chairman	-	S E O Dietrich (appointed 19 March 2008)
	-	R M Crawford (resigned 19 March 2008)
Vice-Chairman	-	R W Ketley
Representatives	-	J Moalusi (resigned 3 December 2008)
	-	C W Coltman (appointed 19 March 2008)

#### **Trustees elected by members of the Society**

B R Bishop  
W Endersby  
L A A Looock  
K P Quinn

#### **Principal Officer**

L Coetzee  
P O Box 2314  
Kimberley  
8300

#### **Registered office address and postal address**

Kimberley House  
84 Du Toitspan Road  
Kimberley  
8301

P O Box 1922  
Kimberley  
8300

#### **Medical scheme administrator during the year**

Self - administered

#### **Country of incorporation**

The Society is incorporated in the Republic of South Africa.

#### **Investment advisors during the year**

J Anderson and M Matthews  
**Alexander Forbes Financial Services**  
Financial service number: Licence no. 1177

61 Katherine Street  
Sandton  
2146

P O Box 787240  
Sandton  
2146

# DE BEERS BENEFIT SOCIETY



## ANNUAL REPORT 2008 GENERAL INFORMATION

### Investment managers during the year

#### **Allan Gray Limited** (Reg. No. 1992/006778/06)

Granger Bay Court  
Beach Road  
V&A Waterfront  
Cape Town  
8001

P O Box 51318  
Cape Town  
8001

#### **Investment Solutions** (Reg. No. 1997/000595/06)

Investment Solutions Office Park  
63 Wierda Road East  
Wierda Valley  
2196

P O Box 2196  
Sandton  
2146

#### **Taquanta Asset Manager (Proprietary) Limited** (Reg. No. 1999/021871/07)

7<sup>th</sup> Floor  
Newlands Terraces  
Boundary Road  
Newlands  
7700

P O Box 23450  
Claremont  
7735

### Actuaries

#### **The Risk Monitor Group**

Ground Floor, Block J  
Central Park  
400-16<sup>th</sup> Road  
Midrand  
1683

Private Bag X17  
Halfway House  
1685

### Auditors

#### **PricewaterhouseCoopers Inc**

Cnr Welgevonden Avenue and Memorial Road  
Kimberley  
8301

P O Box 32  
Kimberley  
8300

# DE BEERS BENEFIT SOCIETY



## ANNUAL REPORT 2008

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## **DE BEERS BENEFIT SOCIETY**

### **NOTICE TO MEMBERS**



NOTICE IS HEREBY GIVEN THAT THE ONE HUNDRED AND TWENTIETH ANNUAL GENERAL MEETING OF THE DE BEERS BENEFIT SOCIETY WILL BE HELD AT 36 STOCKDALE STREET, KIMBERLEY 21 MAY 2009 AT 14H30.

1. To approve the minutes of the 119<sup>th</sup> Annual General Meeting held on 21 May 2008.
2. To receive and consider the Annual Financial Statements of the Society and the group, the report of the Board of Trustees and of the auditors for the year ended 31 December 2008.
3. To consider the appointment of auditors for the year ending 31 December 2009. The Board of Trustees, on the recommendation of the Society's Audit Committee, propose that PricewaterhouseCoopers Inc. be re-appointed as the Society's auditors for 2009.
4. In terms of Rule 18.18, to approve that the honorarium of non-employee member elected Trustees remains at R2 380 per meeting attended.

### **PROXY**

Should any principal member wish to be represented at the Annual General Meeting by proxy, they should contact the Society for an official proxy form.

Please take note that in terms of Rule 26.1.5, notices of motion to be placed before the Annual General Meeting must reach the Principal Officer no later than seven days prior to the date of the meeting.

By order of the Board of Trustees.

**L COETZEE**  
**PRINCIPAL OFFICER**

26 March 2009

84 Du Toitspan Road  
KIMBERLEY  
8301

The Board of Trustees has pleasure in submitting its one hundred and twentieth annual report for the year ended 31 December 2008.

## **1. Description of the medical scheme**

### **1.1 Terms of registration**

The De Beers Benefit Society is a not for profit closed medical scheme registered in terms of the Medical Schemes Act 131 of 1998 (the Act), as amended.

### **1.2 Benefit options**

The Society currently only provides one option.

### **1.3 Risk transfer arrangement**

The Society operated a risk transfer contract with ER24 service for emergency ambulance services. The Society pays a fixed fee for the risk transfer arrangement.

## **2. Financial results for the year under review**

The Society and group reflected a surplus from operations for the year of R7 706 910 (2007: R13 440 626) after incorporating investment income. The decrease in surplus from operations is due to a gradual decline in the membership of the Society since the beginning of 2008, an increase in the Society's average age, pensioner ratio and chronic status. This has contributed to the increase in the claims per member.

The Society and group's funds have grown to R308 337 954 (2007: R300 631 044). The solvency ratio of the Society at 31 December 2008 was 141% (2007: 145%). This ratio can be expressed as 16.9 months cover (2007: 17.4 months cover), compared to the prescribed minimum cover of 3 months. The Board of Trustees is cognisant of the fact that the Society's solvency ratio is substantially higher than the minimum required by law. The Board of Trustees is of the opinion that this is a prudent measure to help ensure the medium to long term financial stability and viability of the Society in a rapidly changing South African healthcare environment and in view of the increasing age profile of the membership

Of total benefits paid in 2008, Hospitals comprised 36% (2007: 36%), Medicines 21% (2007: 20%), Specialists 23% (2007: 21%), General Practitioners 8% (2007: 9%), Dentists and Dental Specialists 5% (2007: 5%) and other benefit types 7% (2007: 9%).

## **3. Investment strategy of the Society**

The Society's investment objectives are to maximise the return on its investments on a long term basis at minimal risk to ensure value retention while still ensuring growth. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

The objective of the Society is to provide members with competitive medical benefits in exchange for regular contributions. To ensure that the level of benefit provided is reasonable, the Board of Trustees have decided to adopt a strategy that ensures that:

- A major part of the surplus assets / funds are invested in portfolios that collectively target a minimum real return of 3% to 6% above CPI, after fees;
- That the balance of assets are invested in liquid cash portfolios to be able to meet the regular cash flow demands of the Society; and
- Minimises risks and administration costs to an acceptable level.

## **DE BEERS BENEFIT SOCIETY**

### **REPORT OF THE BOARD OF TRUSTEES (continue)**

#### **3. Investment strategy of the Society (continued)**

The investment committee met four times during 2008. The mandate of the committee is to ensure that:

- The Society remains liquid;
- Investments are placed at minimum risk and best possible rate of return;
- Investments are in compliance with the regulations of the Medical Schemes Act 131 of 1998 ; and
- A formal risk assessment is performed with feedback to the Board of Trustees with recommendations regarding the mitigation of the risks identified.

The Society invested mainly in linked insurance policies and cash instruments during 2008. This investment policy is reviewed annually, taking into consideration compliance with the Act, the risk and returns of the various investment instruments and the surplus funds available.

During the year the Board of Trustees recognised that the investment climate was changing and decided to review its policy of investing mainly in linked insurance policies. Following the outcome of this review a decision was made to transfer the assets of one of the linked insurance policies to fixed interest and other money market instruments. Refer to note 6 (other financial assets at fair value through profit or loss) in the annual financial statements for more details.

#### **4. Management of insurance risk**

The primary insurance activity carried out by the Society assumes the risk of loss from members and their dependants that are directly subject to risk. The risk relates to the health of the Society members. As such the Society is exposed to the uncertainty surrounding the timing and severity of claims under contract.

The Society manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisations and case management, centralised management of risk transfer arrangements, by monitoring emerging issues and by taking corrective action as required.

The Society uses several methods to assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, and scenario analyses. The principal risk is that the frequency and severity of claims are greater than expected.

Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated with established statistical techniques. There are no changes to assumptions used to measure insurance assets and liabilities that have a material effect on the annual financial statements and there are no terms and conditions of insurance contracts that have a material effect on the timing and uncertainty of the Society's cash flows.

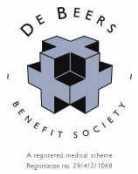
#### **5. Corporate governance**

The Society continues to be committed to the highest levels of corporate governance. The Board of Trustees maintains a firm focus on upholding the highest standards of corporate governance as well as proactively monitoring risks and challenges.

During the period under review the Society improved governance structures, particularly within the risk management functions to ensure that risk mitigation is embedded in the performance of everyday operations. The Society encourages employees to be mindful of managing risk by making it a key performance area and to report any instances of suspected fraud or money laundering.

#### **6. External service providers**

The Board of Trustees monitors and manages the performance of all external service providers on an ongoing basis.

**DE BEERS BENEFIT SOCIETY****REPORT OF THE BOARD OF TRUSTEES (continue)****7. Review of the accounting period's activities****7.1 Operational statistics**

<b>Membership</b>	<b>2008</b>		<b>2007</b>	
	<b>Members</b>	<b>Beneficiaries</b>	<b>Members</b>	<b>Beneficiaries</b>
Membership at 1 January	<b>8 383</b>	<b>20 343</b>	9 195	23 146
New members	<b>533</b>	<b>1 460</b>	652	1 127
Members exited	<b>(835)</b>	<b>(2 849)</b>	(1 464)	(3 930)
Membership at 31 December	<b>8 081</b>	<b>18 954</b>	8 383	20 343
Average number of members / beneficiaries	<b>8 232</b>	<b>19 648</b>	8 789	21 745
Average age of beneficiaries		<b>37</b>		36
Dependant ratio at 31 December	<b>1 : 1.35</b>		1 : 1.43	
Pensioner ratio at 31 December		<b>12 %</b>		10 %
<b>Ratios per average member / beneficiary per month</b>				
Net contribution income	<b>2 121</b>	<b>889</b>	1 962	793
Relevant healthcare expenditure	<b>2 149</b>	<b>900</b>	1 929	780
Non-healthcare expenditure	<b>159</b>	<b>67</b>	156	63
	<b>2008</b>		<b>2007</b>	
	<b>%</b>		<b>%</b>	
Relevant healthcare expenditure as % of net contributions	<b>101.3 %</b>		98.3 %	
Non-healthcare expenditure as % of net contributions	<b>7.5 %</b>		7.9 %	
Return on investment as % of investments	<b>8.9 %</b>		8.4 %	

**7.2 Solvency ratio**

	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>
Accumulated funds per balance sheet	<b>308 337 954</b>	300 631 044
<u>Less: Unrealised profits/losses</u>	<b>12 689 047</b>	1 753 817
Accumulated funds per Regulation 29	<b>295 648 907</b>	<b>298 877 227</b>
Gross contributions	<b>209 545 260</b>	206 875 766
Solvency ratio	<b>141 %</b>	145 %
Average accumulated funds per member at 31 December	<b>R38 156</b>	R 35 862

### **7.3 Claims and contributions**

The Society is confident of its ability to pay claims. This is confirmed by the maintenance of a high solvency ratio during 2008. The Board of Trustees is of the opinion that this is a prudent measure to help ensure the medium to long term financial stability and viability of the Society in a rapidly changing South African healthcare environment and in view of the increasing age profile of the membership. The Trustees are confident that the members receive value for money considering the administration cost, benefits and contribution rates of the Society.

To improve the service delivery in terms of processing and payment of claims, there is an ongoing drive to increase the number of those claims submitted electronically and being settled via electronic transfers.

### **7.4 Outstanding claims**

The basis of calculation of the outstanding claims provision is discussed in note 13 and this is consistent with the prior year. Details of the movement on the outstanding claims provision are set out in note 13 to the annual financial statements.

There has been no unusual movement that the Trustees believe should be brought to the attention of the Society's members.

## **8. Actuarial services**

The Society makes use of an actuary to assist in assessing risks. The actuary used the same principles and assumptions in calculating the outstanding claims provision as in prior years.

The Society's actuary was consulted during August 2008 in the determination of the contribution and benefits levels for the 2009 benefit year.

## **9. Auditors**

In terms of Rule 25.1, the members appointed PricewaterhouseCoopers Incorporated as the Society's auditors for 2008.

## **10. Principal employer**

The principal employer in light of the challenges imposed by the global financial crisis embarked on a restructuring exercise during 2008 to seek ways to reduce the overall running cost of its operations. This could lead to a further reduction in membership in 2009. The Board of Trustees has been proactive in this regard and with the assistance of the actuary has designed an actuarial model to determine and evaluate the impact of further membership reductions on the medium to long term financial stability and viability of the Society.

## **11. Events after balance sheet date**

No events have occurred subsequent to the end of the accounting period affecting the annual financial statements that the Trustees considered should be brought to the attention of members.

## **12. Investments and loans in participating employers of members and other related parties**

The Society holds no investments in the participating employers of the Society's members.

### **13. Related parties**

Refer to related parties disclosure in note 25 to the annual financial statements: Trustee remuneration is disclosed in this note.

### **14. Own facilities and subsidiaries**

Until 31 December 2008 the Society had its own in-house dispensaries in Kimberley, Kleinzee, Lime Acres and Cullinan. These dispensaries were managed under the Society's fully owned subsidiaries, The Benefit Society Dispensary (Proprietary) Limited and Hobbes & Associates Incorporated, since 1958 and 1977 respectively.

The Board of Trustees agreed to the closure of the Kleinzee pharmacy on 31 August 2008 due to the ongoing losses experienced as a result of member losses at Kleinzee due to corporate restructuring by the principal employer. Following the results of a business model review on the remaining dispensaries at Kimberley, Lime Acres and Cullinan, the Board of Trustees agreed to the sale of shares in the Society's subsidiaries to Lauren Lyn James (Proprietary) Limited effective 31 December 2008 for an amount of R2 321 866.

As a result, the provision of chronic medication was outsourced to Chronicare effective from 1 January 2009. The Society has entered into a 3 year Designated Service Provider (DSP) agreement with Chronicare. Some of the directors of Chronicare are also shareholders of Lauren Lyn James (Proprietary) Limited.

### **15. Audit committee**

An audit committee remained in place in accordance with the provisions of the Act. The committee is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The committee consists of five members of whom two are members of the Board of Trustees: none of the members of the committee are officers of the Society. The audit committee met twice during the year. A third meeting was not held, as recommended by the King Report on Corporate Governance, as no need existed.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Society's accounting policies, internal control systems and financial reporting practices. The external auditors formally report to the committee on critical findings arising from audit activities.

The Principal Officer, the Manager, the Financial Manager, the external auditors and the internal auditors attend all audit committee meetings and have unrestricted access to the chairman of the committee.

The committee for the year under review comprised:

- R W Ketley (Chairman and Trustee)
- M K Changfoot
- I N Scheepers
- W Endersby (Trustee)
- R Hannie (appointed 18 March 2008)
- J E de Kock (resigned 29 January 2008)

### **16. Investment committee**

An investment committee remained in place and is mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This committee consists of four members. The majority of the members, including the chairperson are not officers of the Society. The committee met on four occasions during the year.

The Principal Officer, Manager and Financial Manager attend all investment committee meetings and have unrestricted access to the chairman of the committee. The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the investment policy of the Society.

**REPORT OF THE BOARD OF TRUSTEES (continued)**

**16. Investment committee (continued)**

The committee for the year under review comprised:

- S E O Dietrich (Chairman and Trustee)
- R W Ketley (Trustee)
- W Endersby (Trustee)
- C W Coltman (Trustee)

**17. Meeting Attendance**

<b>Board Meetings</b>	<b>March</b>	<b>June</b>	<b>September</b>	<b>December</b>
R M Crawford	Yes	n/a	n/a	n/a
S E O Dietrich	Apology	Yes	Yes	Yes
R W Ketley	Yes	Yes	Yes	Yes
C W Coltman	n/a	Yes	Yes	Apology
L A A Looek	Yes	Yes	Yes	Yes
K P Quinn	Yes	Yes	Yes	Yes
W Endersby	Yes	Yes	Apology	Yes
B R Bishop	Yes	Yes	Yes	Yes
J Moalusi	Apology	Yes	Yes	n/a
<b>Investment Committee</b>	<b>March</b>	<b>June</b>	<b>August</b>	<b>November</b>
R M Crawford	Yes	n/a	n/a	n/a
S E O Dietrich	Yes	Yes	Apology	Yes
R W Ketley	Yes	Yes	Yes	Yes
W Endersby	Yes	Yes	Yes	Yes
C W Coltman	n/a	n/a	Yes	Yes
<b>Audit committee</b>	<b>March</b>			<b>December</b>
R W Ketley	Yes			Yes
M K Changfoot	Yes			Yes
I N Scheepers	Yes			Yes
R Hannie	Yes			Yes
W Endersby	n/a			Yes

**18. Non-compliance**

The following non-compliance with the Act was identified during the course of the financial year: Contravention of Regulation 30, Annexure B, Category 4 (b). Annexure B does not permit the Society to hold shares in territories outside the Republic. The Society had two incidents of contraventions. The following actions have been taken:

- The Society received British American Tobacco (BTI) shares during October 2008 due to local companies Remgro and Richemont unbundling their interest in British American Tobacco. These shares are considered as “foreign shares” due to its status as an inward listed security on the Johannesburg Stock Exchange (JSE) by the South African Reserve Bank and the Council for Medical Schemes. The Society has applied for exemption from the Regulation 30 limits in respect of the British American Tobacco (BTI) shares, as set out in Circular 30 of 2008 of the Council for Medical Schemes.
- The other non-compliance matter has been addressed by disposing of the shares which resulted in the Society exceeding the limits.

The non-compliance increases the liquidity and investment risk of the Society attributable to foreign equities.

## **DE BEERS BENEFIT SOCIETY**

### **STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES**

#### **FOR THE YEAR ENDED 31 DECEMBER 2008**

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of De Beers Benefit Society and the group. The annual financial statements presented on pages 14 to 51 have been prepared in accordance with International Financial Reporting Standards (IFRS) and include amounts based on judgements and estimates made by management.

The Trustees consider that in preparing the annual financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates.

The Trustees are satisfied that the information contained in the annual financial statements fairly presents the results of operations for the year and the financial position of the Society and the group at year-end. The Trustees also prepared the other information included in the annual report and are responsible for both its accuracy and its consistency with the annual financial statements.

The Trustees are responsible for ensuring that accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Society and the group which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

De Beers Benefit Society operates in an established controlled environment, which is documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute assurance that assets are safeguarded and the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the annual financial statements. The Trustees have no reason to believe that the Society will not be a going concern in the foreseeable future, based on forecasts and available cash resources. These annual financial statements support the viability of the Society.

The current composition of the Board of Trustees of the Society is featured on page 1. The Society has adopted a board structure of four Trustees nominated by the employer companies and four Trustees elected by the members.

The Society's external auditors are responsible for auditing the annual financial statements in terms of International Standards on Auditing and their report is presented on page 13.

The annual financial statements were approved by the Board of Trustees on 26 March 2009 and are signed on its behalf by:

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**S E O DIETRICH**  
**CHAIRMAN**

---

**R W KETLEY**  
**TRUSTEE**

---

**L COETZEE**  
**PRINCIPAL OFFICER**

26 March 2009

## **DE BEERS BENEFIT SOCIETY**

### **STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES**

#### **FOR THE YEAR ENDED 31 DECEMBER 2008**

The De Beers Benefit Society is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. De Beers Benefit Society and its wholly owned subsidiaries are committed to striving for the highest levels of corporate governance. The Society reviews and reassesses its corporate governance practices on an ongoing basis and maintains a strong drive to identify and implement best practice.

#### **Board of Trustees**

The Trustees meet regularly and monitor the performance of the Society. They address a range of key issues and ensure that discussion of policy, strategy and performance is critical, informed and constructive.

All Trustees have access to the advice and services of the Principal Officer and, where appropriate, may seek independent professional advice at the expense of the Society.

#### **Internal Controls**

The Society maintains internal controls and systems designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements and to safeguard, verify and maintain accountability for its assets adequately. Such controls are based on established policies and procedures and are implemented by trained personnel with the appropriate segregation of duties.

No event or item has come to the attention of the Board of Trustees that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

\_\_\_\_\_  
**S E O DIETRICH**  
**CHAIRMAN**

\_\_\_\_\_  
**R W KETLEY**  
**TRUSTEE**

\_\_\_\_\_  
**L COETZEE**  
**PRINCIPAL OFFICER**

26 March 2009



We have audited the annual financial statements and group annual financial statements of De Beers Benefit Society, which comprise the balance sheet and the consolidated balance sheet as at 31 December 2008, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 14 to 51.

*Trustees' Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Society and of the group as of 31 December 2008, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act of South Africa.

**PricewaterhouseCoopers Inc**  
**Director: Kevan Moodley**  
**Registered Auditor**  
**Cnr Welgevonden Avenue and Memorial Road**  
**Kimberley**

26 March 2009

**DE BEERS BENEFIT SOCIETY****BALANCE SHEET****AT 31 DECEMBER 2008**

		<u>Group</u>		<u>Society</u>	
	<u>Notes</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
		<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>381 732</b>	685 785	<b>381 732</b>	251 941
Property, plant and equipment	2	369 571	350 173	369 571	251 729
Intangible assets	3	12 161	14	12 161	9
Investments in subsidiaries	4	-	-	-	203
Deferred income tax assets	5	-	335 598	-	-
<b>Current assets</b>		<b>339 434 079</b>	337 894 525	<b>339 434 079</b>	335 529 914
Other financial assets at fair value through profit or loss	6	179 365 147	180 567 685	179 365 147	180 567 685
Inventories	7	-	3 475 362	-	-
Trade and other receivables	8	11 662 379	6 857 002	11 662 379	8 139 782
Cash and cash equivalents	9	148 406 553	146 994 476	148 406 553	146 822 447
<b>Total assets</b>		<b>339 815 811</b>	338 580 310	<b>339 815 811</b>	335 781 855
<b>FUNDS AND LIABILITIES</b>					
<b>Members' funds</b>		<b>308 337 954</b>	300 631 044	<b>308 337 954</b>	301 452 682
Accumulated funds		308 337 954	300 631 044	308 337 954	301 452 682
<b>Long term liabilities</b>		<b>7 706 376</b>	6 213 512	<b>7 706 376</b>	6 213 512
Post retirement liability	10	7 706 376	6 213 512	7 706 376	6 213 512
<b>Current liabilities</b>		<b>23 771 481</b>	31 735 754	<b>23 771 481</b>	28 115 661
Trade and other payables	11	10 778 387	16 805 669	10 778 387	13 185 576
Risk transfer arrangement	12	693 094	630 085	693 094	630 085
Outstanding claims provision	13	12 300 000	14 300 000	12 300 000	14 300 000
<b>Total funds and liabilities</b>		<b>339 815 811</b>	338 580 310	<b>339 815 811</b>	335 781 855

**DE BEERS BENEFIT SOCIETY**

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2008**



	<u>Note</u>	<u>Group</u>		<u>Society</u>	
		<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
		<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
<b>Net contribution income</b>	14	<b>209 545 260</b>	206 875 766	<b>209 545 260</b>	206 875 766
<b>Relevant healthcare expenditure</b>		<b>(212 279 276)</b>	(203 431 094)	<b>(212 279 276)</b>	(203 431 094)
Net claims incurred	15	<b>(212 688 491)</b>	(205 373 801)	<b>(212 688 491)</b>	(205 373 801)
Net expense on risk transfer arrangement		<b>409 215</b>	1 942 707	<b>409 215</b>	1 942 707
Risk transfer arrangement fees		<b>(693 093)</b>	(630 085)	<b>(693 093)</b>	(630 085)
Recoveries from risk transfer arrangement		<b>1 102 308</b>	2 572 792	<b>1 102 308</b>	2 572 792
<b>Gross healthcare results</b>		<b>(2 734 016)</b>	3 444 672	<b>(2 734 016)</b>	3 444 672
Managed care: Management services	16	<b>(861 285)</b>	(875 101)	<b>(861 285)</b>	(875 101)
Administration expenses	17	<b>(13 250 034)</b>	(15 069 063)	<b>(13 250 034)</b>	(15 069 063)
Post retirement medical expense	10	<b>(1 492 864)</b>	(512 012)	<b>(1 492 864)</b>	(512 012)
Net impairment losses on healthcare receivables	18	<b>(151 220)</b>	(47 125)	<b>(151 220)</b>	(47 125)
<b>Net healthcare results</b>		<b>(18 489 419)</b>	(13 058 629)	<b>(18 489 419)</b>	(13 058 629)
<b>Other income</b>					
Investment income	19	<b>29 359 717</b>	27 354 871	<b>29 359 717</b>	27 354 871
Income from use of own facilities by external parties	20	<b>6 729 417</b>	6 200 718	-	-
Sundry income	21	<b>304 569</b>	490 015	<b>304 569</b>	490 015
<b>Other expenditure</b>					
Asset management and monitoring fees		<b>(2 062 293)</b>	(523 993)	<b>(2 062 293)</b>	(523 993)
Cost incurred in provision of own facilities to external parties	20	<b>(7 529 810)</b>	(7 022 356)	-	-
Loss on disposal of investments in subsidiaries	22	<b>(605 271)</b>	-	<b>(2 227 302)</b>	-
<b>Net surplus for the year</b>		<b>7 706 910</b>	13 440 626	<b>6 885 272</b>	14 262 264

**DE BEERS BENEFIT SOCIETY**

**STATEMENT OF CHANGES IN FUNDS**

**FOR THE YEAR ENDED 31 DECEMBER 2008**



	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Balance at beginning of the year	<b>300 631 044</b>	287 190 418	<b>301 452 682</b>	287 190 418
Net surplus for the year	<b><u>7 706 910</u></b>	<u>13 440 626</u>	<b><u>6 885 272</u></b>	<u>14 262 264</u>
Balance at end of the year	<b><u>308 337 954</u></b>	<u>300 631 044</u>	<b><u>308 337 954</u></b>	<u>301 452 682</u>

**DE BEERS BENEFIT SOCIETY****CASH FLOW STATEMENT****FOR THE YEAR ENDED 31 DECEMBER 2008**

		<u>Group</u>		<u>Society</u>	
	<u>Notes</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
		<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Cash flows from operations before working capital changes	23	(19 548 152)	(13 435 577)	(18 427 282)	(12 347 022)
<b>Working capital changes</b>					
Decrease / (Increase) in inventories		1 622 237	(16 930)	-	-
(Increase) / Decrease in trade and other receivables		(5 336 666)	309 037	(8 219 496)	(204 667)
Decrease in trade and other payables		(5 964 273)	(13 932 874)	(2 344 180)	(14 845 601)
(Decrease) / Increase in outstanding claims provision		(2 000 000)	900 000	(2 000 000)	900 000
		<u>(31 226 854)</u>	<u>(26 176 344)</u>	<u>(30 990 958)</u>	<u>(26 497 290)</u>
Operating interest received		5 662 530	25 548 193	5 662 530	25 548 193
Taxation paid		-	-	-	-
<b>Net cash utilised in operating activities</b>		<u>(25 564 324)</u>	<u>(628 151)</u>	<u>(25 328 428)</u>	<u>(949 097)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
<b>Other financial assets at fair value through profit or loss</b>					
Purchase of assets		(114 000 000)	(179 000 000)	(114 000 000)	(179 000 000)
Proceeds on disposal of assets		137 146 117	-	137 146 117	-
Costs incurred in managing assets		1 667 940	238 993	1 667 940	238 993
<b>Investments in subsidiaries</b>					
Proceeds on disposal of subsidiaries	24	2 321 866	-	2 321 866	-
<b>Property, plant and equipment</b>					
Proceeds on disposal of assets		137 235	-	66 553	-
Purchase of assets		(296 757)	(219 362)	(289 942)	(145 567)
<b>Net cash flow from/ (used in) investing activities</b>		<u>26 976 401</u>	<u>(178 980 369)</u>	<u>26 912 534</u>	<u>(178 906 574)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1 412 077</b>	<b>(179 608 520)</b>	<b>1 584 106</b>	<b>(179 855 671)</b>
Cash and cash equivalents at beginning of the year		<u>146 994 476</u>	<u>326 602 996</u>	<u>146 822 447</u>	<u>326 678 118</u>
<b>Cash and cash equivalents at the end of the year</b>	9	<u>148 406 553</u>	<u>146 994 476</u>	<u>148 406 553</u>	<u>146 822 447</u>

## **1 PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **1.1 Basis of preparation**

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, except for:

- Other financial assets at fair value through profit or loss; and
- Trade and other receivables at fair value.

The preparation of annual financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. Those areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in note 30.

### **1.2 Standards, amendment and interpretations effective in current period**

The following standards, amendments or interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 and are relevant to the group's operations.

IFRS 7 - *Financial Instruments: Disclosures*. This amendment deals with presentation of finance costs (Effective 1 Jan 2008)

IFRIC 14, IAS 19 – *The limit on Defined Benefit Assets, Minimum Funding Requirements and their Interaction*, provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement. (Effective 1 Jan 2008)

### **1.3 Standards, amendments and interpretations effective in current period but not relevant.**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2008 but they are not relevant to the group's operations:

IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions* – IFRS 11 addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. (Effective 1 Mar 2007)

IFRIC 12 – *Service Concession Arrangements*, addresses how service concession operators should apply IFRSs to account for the obligations they undertake and rights they received in service concession arrangements. (Effective 1 Jan 2008)

IFRIC 13 - *Customer Loyalty Programmes*, addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits. The interpretation requires the allocation of some of the proceeds of the initial sale to the award credits and recognises these proceeds as revenue only when they have fulfilled their obligations by supplying awards themselves or engaging a third party to do so. (Effective 1 Jul 2008).

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*, provides guidance on net investments hedging, including: which foreign currency risks qualify for hedge accounting, and what amount can be designated; where within the group the hedging instruments can be held; and what amount should be reclassified to profit or loss when the hedged foreign operation is disposed of. (Effective 1 Oct 2008).

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.4 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 and are relevant to the group's operations.

IAS 1 - *Presentation of Financial Statements (revised)*. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. This will enable readers to analyse changes in a company's equity resulting from transactions with owners in their capacity as owners separately from 'non-owner' changes. The revisions include changes in the titles of some of the financial statements to reflect their function more clearly. The new titles are not mandatory for use in financial statements. (Effective 1 Jan 2009)

IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*. This amendment deals with the status of implementation guidance. (Effective 1 Jan 2009)

IAS 10 - *Events after the Reporting Period*. This amendment deals with dividends declared after the end of the reporting period. (Effective 1 Jan 2009)

IAS 16 - *Property, Plant and Equipment*. This amendment deals with recoverable amounts and sale of assets held for rental. (Effective 1 Jan 2009)

IAS 18 - *Revenue*. This amendment deals with costs of originating a loan. (Effective 1 Jan 2009)

IAS 19 - *Employee Benefits*. This amendment deals with curtailments and negative past service costs, plan administration costs, replacement of term 'fall due' and guidance on contingent liabilities. (Effective 1 Jan 2009)

IAS 36 - *Impairment of Assets*. This amendment deals with disclosure of estimates used to determine the recoverable amount. (Effective 1 Jan 2009)

IAS 38 - *Intangible Assets*. This amendment deals with advertising activities, promotional activities and unit of production method of amortization. (Effective 1 Jan 2009)

IAS 39 - *Financial Instruments: Recognition and Measurement*. This amendment deals with reclassification of derivatives into or out of the classification of at fair value through profit or loss, designating and documenting hedges at the segment level and applicable effective interest rate on cessation of fair value hedge accounting. (Effective 1 Jan 2009)

The Trustees anticipate that all of the above will be adopted in the annual financial statements for the period commencing 1 January 2009 and that the adoption thereof will have no material impact on the annual financial statements of the Society in the period of initial application.

**1.5 Standards, amendments and interpretations to existing standards that is not yet effective and not relevant for the group's operations**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the group's operations:

IFRIC 15 - *Agreements for the Construction of Real Estate*. The Interpretation addresses the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. Agreements within the scope of IFRIC 15 are described as 'agreements for the construction of real estate', and may include the delivery of other goods or services. IFRIC 15 addresses two (related) issues being determining whether an agreement for the construction of real estate is within the scope of IAS 11 Construction Contracts or IAS 18 Revenue and when revenue from the construction of real estate should be recognised. (Effective 1 Jan 2009)

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.5 Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the group's operations (continued)**

IFRS 8 - *Operating Segments*, requires an entity to adopt the 'management approach' to reporting on the financial performance of its operating segments. The Standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. (Effective 1 Jan 2009).

IFRS 1 - *First-Time Adoption of International Financial Reporting Standards* and IAS 27 - *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. The amendment allow first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removed the definition of the cost method from IAS 27 and replaced it with a requirement to present dividends as income in the separate financial statements of the investor. (Effective 1 Jan 2009)

IFRS 2 - *Share Based Payment*. The amendment deals with two matters. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. (Effective 1 Jan 2009).

IFRS 3 - *Business Combinations (revised)*. The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. (Effective 1 Jan 2009).

IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*. This amendment deals with plans to sell the controlling interest in a subsidiary. (Effective 1 Jan 2009).

IAS 20 - *Accounting for Government Grants and Disclosure of Government Assistance*. This amendment deals with government loans with a below-market rate of interest and consistency of terminology with other IFRSs. (Effective 1 Jan 2009).

IAS 23 - *Borrowing Costs*. The main change is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. (Effective 1 Jan 2009).

IAS 27 - *Consolidated and Separate Financial Statements (revised)*. The effects of all transactions with non-controlling interests are to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. (Effective 1 Jan 2009).

IAS 28 - *Investments in Associates*. This amendment deals with consequential amendments from changes to Business Combinations, required disclosures when investments in associates are accounted for at fair value through profit or loss and impairment of investment in associates. (Effective 1 Jan 2009).

IAS 29 - *Financial Reporting in Hyperinflationary Economies*. This amendment deals with description of measurement basis in financial statements and consistency of terminology with other IFRSs. (Effective 1 Jan 2009).

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.5 Standards, amendments and interpretations to existing standards that are not yet effective and not relevant for the group's operations (continued)**

IAS 31 - *Interests in Joint Ventures*. This amendment deals with consequential amendments from changes to Business Combinations and required disclosures when interests in jointly controlled entities are accounted for at fair value through profit or loss. (Effective 1 Jan 2009).

IAS 32 - *Financial Instruments: Presentation* and IAS 1 - *Presentation of financial statements - Puttable Financial Instruments and Obligations Arising on Liquidation*. The amendments require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions: a) puttable financial instruments (for example, some shares issued by co-operative entities); b) instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation (for example, some partnership interests and some shares issued by limited life entities). Additional disclosures are required about the instruments affected by the amendments. (Effective 1 Jan 2009).

IAS 34 - *Interim Financial Reporting*. This amendment deals with earnings per share disclosures in interim financial reports. (Effective 1 Jan 2009).

IAS 40 - *Investment Property*. This amendment deals with property under construction or development for future use as investment property, consistency of terminology with IAS 8 and investment property held under lease. (Effective 1 Jan 2009).

IAS 41 – *Agriculture*. This amendment deals with discount rate for fair value calculations, additional biological transformation, examples of agricultural produce and products and point-of-sale costs. (Effective 1 Jan 2009).

**1.6 Consolidation**

**Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

**Transactions and minority interests**

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group and are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.7 Property, plant, equipment**

Property, plant and equipment are reflected at historical cost less accumulated depreciation and accumulated impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets after taking into consideration amortisation of the assets' residual value. The estimated maximum useful lives are:

*Property, plant, equipment*

Computer equipment	2 – 5 years
Office equipment	3 – 8 years
Furniture and fittings	10 – 15 years

The useful lives and residual values of assets are assessed annually.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Society and the cost of the item can be measured reliably. All other maintenance and repair costs are recognised in the income statement during the financial period in which they are incurred. Directly attributable costs associated with the acquisition, development and installation are capitalised. Such assets are amortised using the straight-line method.

Gains (sale price exceeds the book value) and losses (the book value exceeds the sale price) on the disposal of property, plant and equipment are recognised in the income statement. Carrying amounts of all assets are reduced to their recoverable amount, where this is lower than the carrying amount. In determining the recoverable amount of property, plant and equipment, the expected future cash flows attributable to such assets are considered.

**1.8 Intangible assets**

Computer software

Intangible assets are reflected at historical cost less accumulated depreciation and accumulated impairments. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is charged on the straight-line basis over the estimated useful lives of the assets after taking into consideration the assets' residual value. The estimated maximum useful lives of intangible assets are two to five years.

The useful lives and residual values of assets are assessed annually. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Society and the cost of the item can be measured reliably. All other maintenance and repair costs are recognised in the income statement during the financial period in which they are incurred. Directly attributable costs associated with the acquisition, development and installation of software are capitalised. Such assets are amortised using the straight-line method. Surpluses (sale price exceeds the book value) and deficits (the book value exceeds the sale price) on the disposal of assets are recognised in the income statement.

Carrying amounts of all items of intangible assets are reduced to their recoverable amount, where this is lower than the carrying amount. In determining the recoverable amount of intangible assets, the expected future cash flows attributable to such assets are considered. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs for software development and appropriate portion of relevant overheads.

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.8 Intangible assets (continued)**

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

**1.9 Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**1.10 Financial assets**

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

*(c) Available for sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.10 Financial assets (continued)**

Regular purchases and sales of financial assets are recognised on the trade-date – the date on the group has transferred substantially all risks and rewards of ownership.

Available for sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Loans and receivables are carried at amortised cost using the effective interest method, security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities.

Interest on available for sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available for sale equity instruments are recognised in the income statement as part of other income when the group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 1.12.

**1.11 Inventories**

Inventories comprise medicines and pharmaceutical supplies utilised by the subsidiaries. The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the weighted average cost formula. Inventories are measured at the lower of cost and net realisable (current value less incurred to sell) value.

## **DE BEERS BENEFIT SOCIETY**

### **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

## **1 PRINCIPAL ACCOUNTING POLICIES (continued)**

### **1.12 Trade and other receivables**

Trade and other receivables originated by the Society are measured on initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method, less provision for impairment which is established when there is objective evidence that the Society will not be able to collect all amounts due according to their original terms. The allowance is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow as discounted at the effective interest compounded at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

Receivables arising from insurance contracts are also classified in the category and are reviewed for impairment as part of the impairment review of trade and other receivables.

### **1.13 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, at fair value.

### **1.14 Trade payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **1.15 Provisions**

Provisions are recognised when the Society has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

#### *Outstanding claims provision*

Claims outstanding comprise provisions for the Society's estimate of the ultimate cost of settling all claims incurred but not yet reported at the balance sheet date. Claims outstanding are determined as accurately as possible based on a number of factors, which include previous experience in claims patterns, claims settlement patterns, changes in the nature and number of members according to gender and age, trends in claims frequency, changes in the claims processing cycle, and variations in the nature and average cost incurred per claim. Estimated co – payments are deducted in calculating the outstanding claims provision. The Society does not discount its provision for outstanding claims, since the effect of the time value of money is not considered material.

### **1.16 Insurance contracts**

Contracts under which the Society accepts significant insurance risk from another party by agreeing to compensate the member or other beneficiary if a specified uncertain future event (the insured event) adversely affects the member or other beneficiary are classified as insurance contracts. The contracts issued compensate the Society's members for healthcare expenses incurred.

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.17 Risk transfer arrangements**

Risk transfer arrangement fees are recognised as an expense over the indemnity period on a straight-line basis.

Risk transfer premiums/fees and benefits reimbursed are presented in the income statement and balance sheet on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as insurance. Amounts recoverable under such contracts are recognised in the same year as the related claim.

**1.18 Contribution income**

Gross contributions are received monthly. The earned portion of contributions received is recognised as revenue. Contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

**1.19 Relevant healthcare expenditure**

Relevant healthcare expenditure consists of net claims incurred and net income or expense from risk transfer arrangements.

**1.20 Claims incurred**

Gross claims incurred comprise the total estimated cost of all claims arising from healthcare events that have occurred in the year and for which the Society is responsible, whether or not reported by the end of the year.

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments and third parties;
- claims for services rendered during the previous year not included in the outstanding claims provision for that year, net of recoveries from members for co-payments;
- services rendered to members from the Society's own facilities;
- claims settled in terms of risk transfer arrangements; and
- movement in outstanding claim provision.

Claims incurred relating to risk transfer arrangements are calculated by applying the Reference Price List (RPL) tariffs to the different categories of services provided by the arrangement. Anticipated recoveries under risk transfer arrangements are disclosed separately as assets and are assessed in a similar manner to the assessment of the outstanding claims provision and claim reported not yet paid.

**1.21 Managed care**

These expenses represent the cost of managing health care expenditure and the amounts paid or payable to the third party or related parties for managing the utilisation, costs and quality of healthcare services to the Society.

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.22 Related parties relationship**

*Subsidiaries*

The consolidated financial statements include the financial statements of the wholly owned subsidiaries Benefit Society Dispensary (Proprietary) Limited and Hobbes & Associates Incorporated.

The revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business - primarily to the Society's members and sales related taxes.

*Key management personnel*

The Board of Trustees does not receive any remuneration, except for retired non-employee trustee meeting attendance fees in terms of Rule 18.18.

**1.23 Investment income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Society reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

**1.24 Employee benefits**

*(a) Pension obligations*

The Society provides a defined contribution pension fund for its employees and pays contributions to a privately administered pension fund on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as the employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that cash refund/reduction in future payments is available.

*(b) Post retirement benefits*

A number of related employees of the Society are entitled to post retirement healthcare benefits. The entitlement to these retirement healthcare benefits is based on the employee remaining in service up to official retirement age. The expected cost of these benefits is accrued over the estimated average remaining service lives of the related employees. An independent qualified actuary, on an annual basis, carries out valuations of the obligations, using the projected unit credit method. The total expense (current service cost, interest cost and actuarial gains and losses) is charged to the income statement.

**1.25 Current and deferred income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries the Society's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary difference arising between carrying amounts in the consolidated annual financial statements.

**1 PRINCIPAL ACCOUNTING POLICIES (continued)**

**1.25 Current and deferred income tax (continued)**

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when related deferred income tax assets is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available le against which the temporary difference can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

**1.26 Own facilities**

The revenue is measured at the fair value of the consideration received or receivable and represents amounts for services provided in the normal course of business to third parties, net of discounts. The surplus or deficit on own facilities represents this income less the cost incurred in operating these facilities for third parties. Benefits relating to services rendered by the own facilities for the scheme's members are reflected as part of claims incurred. The own facilities were managed by the Society's subsidiaries described in note 1.22.

**1.27 Liability adequacy test**

At balance sheet date, liability adequacy tests are performed to ensure adequacy of member insurance liabilities. The liability for insurance contracts is tested for adequacy by discounting current best estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability of related assets. Where a shortfall is identified, an additional provision is made and the Society recognises the deficiency in income for the year.

**2. PROPERTY, PLANT AND EQUIPMENT**

**GROUP**

	<u>Furniture, fittings and equipment</u>	<u>Vehicles</u>	<u>Computer equipment</u>	<u>Total</u>
<b>2008</b>	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Cost	145 390	-	1 304 853	1 450 243
Opening balance	176 969	14 828	2 646 764	2 838 561
Additions	15 110	-	268 623	283 733
Disposal of subsidiaries	(19 440)	(14 828)	(224 342)	(258 610)
Disposals	(27 249)	-	(1 386 192)	(1 413 441)
Accumulated depreciation	(39 765)	-	(1 040 907)	(1 080 672)
Opening balance	(48 932)	(14 827)	(2 424 629)	(2 488 388)
Depreciation for the year	(17 812)	-	(192 836)	(210 648)
Disposal of subsidiaries	5 421	14 827	208 234	228 482
Disposals	21 558	-	1 368 324	1 389 882
<b>Net Book value</b>	<b>105 625</b>	<b>-</b>	<b>263 946</b>	<b>369 571</b>
	<u>Furniture, fittings and equipment</u>	<u>Vehicles</u>	<u>Computer equipment</u>	<u>Total</u>
<b>2007</b>	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Cost	176 969	14 828	2 646 764	2 838 561
Opening balance	113 784	14 828	2 490 587	2 619 199
Additions	63 185	-	156 177	219 362
Accumulated depreciation	(48 932)	(14 827)	(2 424 629)	(2 488 388)
Opening balance	(32 553)	(13 828)	(2 196 220)	(2 242 601)
Depreciation for the year	(16 379)	(999)	(228 409)	(245 787)
<b>Net Book value</b>	<b>128 037</b>	<b>1</b>	<b>222 135</b>	<b>350 173</b>

Depreciation expenses of R153 855 (2007: R178 771) have been charged in 'administration expenses' and R56 793 (2007: R67 016) in 'cost incurred in provision of own facilities to external parties'.

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**



**2. PROPERTY, PLANT AND EQUIPMENT (continued)**

**SOCIETY**

	<u>Furniture, fittings and equipment</u>	<u>Computer equipment</u>	<u>Total</u>
	<u>R</u>	<u>R</u>	<u>R</u>
<b>2008</b>			
Cost	145 390	1 304 853	1 450 243
Opening balance	156 828	2 317 119	2 473 947
Additions	15 110	261 808	276 918
Disposals	(26 548)	(1 274 074)	(1 300 622)
Accumulated depreciation	(39 765)	(1 040 907)	(1 080 672)
Opening balance	(46 287)	(2 175 931)	(2 222 218)
Depreciation for the year	(14 826)	(139 029)	(153 855)
Disposals	21 348	1 274 053	1 295 401
<b>Net Book value</b>	<b>105 625</b>	<b>263 946</b>	<b>369 571</b>
	<u>Furniture, fittings and equipment</u>	<u>Computer equipment</u>	<u>Total</u>
	<u>R</u>	<u>R</u>	<u>R</u>
<b>2007</b>			
Cost	156 828	2 317 119	2 473 947
Opening balance	113 784	2 214 596	2 328 380
Additions	43 044	102 523	145 567
Accumulated depreciation	(46 287)	(2 175 931)	(2 222 218)
Opening balance	(32 553)	(2 010 894)	(2 043 447)
Depreciation for the year	(13 734)	(165 037)	(178 771)
<b>Net Book value</b>	<b>110 541</b>	<b>141 188</b>	<b>251 729</b>

Depreciation expenses of R 153 855 (2007: R178 771) has been charged in 'administration expenses'.

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**



**3. INTANGIBLE ASSETS**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> R	<u>2007</u> R	<u>2008</u> R	<u>2007</u> R
Cost	<b>140 168</b>	1 656 873	<b>140 168</b>	1 651 873
Opening balance	<b>1 656 873</b>	1 656 873	<b>1 651 873</b>	1 651 873
Additions	<b>13 024</b>	-	<b>13 024</b>	-
Disposal of subsidiaries	<b>(5 000)</b>	-	-	-
Disposals	<b>(1 524 729)</b>	-	<b>(1 524 729)</b>	-
Accumulated depreciation	<b>(128 007)</b>	(1 656 859)	<b>(128 007)</b>	(1 651 864)
Opening balance	<b>(1 656 859)</b>	(1 647 517)	<b>(1 651 864)</b>	(1 644 187)
Depreciation for the year	<b>(872)</b>	( 9 342)	<b>(868)</b>	(7 677)
Disposal of subsidiaries	<b>4 999</b>	-	-	-
Disposals	<b>1 524 725</b>	-	<b>1 524 725</b>	-
<b>Net Book value</b>	<b>12 161</b>	14	<b>12 161</b>	9

Depreciation expenses of R868 (2007: R 7 677) has been charged in 'administration expenses' and R4 (2007: R1 665) in 'cost incurred in provision of own facilities to external parties'. None of the intangible assets are impaired.

**4. INVESTMENTS IN SUBSIDIARIES**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> R	<u>2007</u> R	<u>2008</u> R	<u>2007</u> R
Investments in wholly owned subsidiaries				
<u>Unlisted</u>				
Hobbes & Associates Inc. 3 ordinary shares of R1 each at cost	-	-	-	3
Benefit Society Dispensary (Proprietary) Limited 100 ordinary shares of R2 each at cost	-	-	-	200
	<u>-</u>	<u>-</u>	<u>-</u>	<u>203</u>

The principal activity of these subsidiaries was the supply of medicines and pharmaceutical supplies to the members of the Society. The Society elected to record the investment in subsidiaries at cost price in terms of IAS27. The Society disposed of its investments in subsidiaries on 31 December 2008.

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**



**5. DEFERRED INCOME TAX ASSETS**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
Beginning of the year	335 598	-	-	-
Provision for bonus	-	42 410	-	-
Tax loss carry-forward	324 927	293 188	-	-
	<b>660 525</b>	<b>335 598</b>	<b>-</b>	<b>-</b>
Disposal of subsidiaries (note 24)	<b>(660 525)</b>	<b>-</b>	<b>-</b>	<b>-</b>
End of the year	<b>-</b>	<b>335 598</b>	<b>-</b>	<b>-</b>
<b>Amount credited to cost incurred in provision of own facilities to external parties in the income statement</b>	<b>324 927</b>	<b>335 598</b>	<b>-</b>	<b>-</b>

Deferred income tax assets are recognised for tax losses carry forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

**6. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

Linked insurance policies are classified as held at fair value through profit or loss. The fair value of insurance policies are valued at the unit value in which the contractual benefits are denominated multiplied by the number of units at the statement of net assets and funds date.

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
Equities – Local	65 641 842	90 812 460	65 641 842	90 812 460
Equities – Foreign	4 903 451	-	4 903 451	-
Bonds and debentures	2 662 379	2 584 186	2 662 379	2 584 186
Domestic cash	106 157 475	87 171 039	106 157 475	87 171 039
	<b>179 365 147</b>	<b>180 567 685</b>	<b>179 365 147</b>	<b>180 567 685</b>

The movement in other financial assets at fair value through profit and loss can be summarised as follows:

Beginning of the year	180 567 685	-	180 567 685	-
Invested	114 000 000	179 000 000	114 000 000	179 000 000
Realised gains	6 916 747	2 108	6 916 747	2 108
Unrealised gains	10 855 506	1 753 817	10 855 506	1 753 817
Interest received	5 839 266	50 753	5 839 266	50 753
Investment fees	(1 667 940)	(238 993)	(1 667 940)	(238 993)
Proceeds from sales	(137 146 117)	-	(137 146 117)	-
End of the year	<b>179 365 147</b>	<b>180 567 685</b>	<b>179 365 147</b>	<b>180 567 685</b>

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**



**6. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

Other financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement. (Note 23) Changes in fair value of other financial assets at fair value through profit or loss are recorded in investment income in the income statement. (Note 19)

The fair value of all equity holdings is based on current bid prices in an active market.

The maximum exposure to credit risk at the reporting date is the fair value. The credit quality of the financial assets is neither past due nor impaired. The counterparties are existing customers (more than 6 months) without external credit rating and no defaults in the past. None of the assets that are fully performing has been renegotiated in the last year.

**7. INVENTORIES**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Inventory consists of:				
Medication and pharmaceutical supplies of subsidiaries	-	3 475 362	-	-

None of the inventory as at 31 December 2007 was either past due or impaired.

**8. TRADE AND OTHER RECEIVABLES**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Recoveries from members for co-payments	3 387 421	2 938 218	3 387 421	2 938 218
Other receivables	8 398 433	3 881 053	8 398 433	1 310 639
Healthcare receivables	11 785 854	6 819 271	11 785 854	4 248 857
Net impairment losses on healthcare receivables	(239 062)	(91 128)	(239 062)	(91 128)
	11 546 792	6 728 143	11 546 792	4 157 729
Prepayments	111 312	113 832	111 312	113 832
Staff loans	4 275	15 027	4 275	15 027
Loans to related parties	-	-	-	3 853 194
Benefit Society Dispensary (Proprietary) Limited	-	-	-	1 543 235
Hobbes and Associates Incorporated	-	-	-	2 309 959
	11 662 379	6 857 002	11 662 379	8 139 782

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

**8. TRADE AND OTHER RECEIVABLES (continued)**

At 31 December 2008 the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets. These assets are rendered interest free.

Trade and other receivable balances amounting to R1 745 229 was transferred from the subsidiaries to the Society on 31 December 2008 as per the sale of shares agreement and are included in other receivables.

Trade and other receivables that are less than 4 months past due are not considered impaired. As at 31 December 2008, trade and other receivables of R3 253 069 were past due but not impaired. The group does not hold any collateral over these balances. The group did not provide for these as there has not been a significant change in the credit quality and the amounts are still considered recoverable. These relate to a number of members and independent customers for whom there is no history of default. The aging analysis of these trade receivables as at 31 December 2008 is as follows:

	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Up to 4 months	1 545 317	-	1 545 317	-
Over 4 months	1 707 752	-	1 707 752	-
	<u>3 253 069</u>	<u>-</u>	<u>3 253 069</u>	<u>-</u>

Movements on the provision for impairment of healthcare receivables are as follows:

Beginning of the year	91 128	44 003	91 128	44 003
Amount recognised in the income statement	151 220	47 125	151 220	47 125
Provision for impairment	147 934	48 586	147 934	48 586
Written off as uncollectible	3 286	-	3 286	-
Recovered amount reversed	-	(1 461)	-	(1 461)
End of the year	<u>242 348</u>	<u>91 128</u>	<u>242 348</u>	<u>91 128</u>

The creation and release of provision for impaired healthcare receivables have been included in 'net impaired losses on healthcare receivables' in the income statement (note 18).

In determining the recoverability of healthcare receivables the group considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the membership base being large and unrelated. Accordingly the Board of Trustees believe that there is no further credit provision required in excess of the allowance for impairment of healthcare receivables.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

**DE BEERS BENEFIT SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)****9. CASH AND CASH EQUIVALENTS**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
<b>Short-term bank deposits</b>				
Beginning of the year	<b>130 423 033</b>	318 545 945	<b>130 423 033</b>	318 545 945
Interest received and accrued	<b>115 373</b>	22 815 135	<b>115 373</b>	22 815 135
Withdrawal	<b>(130 538 406)</b>	(256 438 047)	<b>(130 538 406)</b>	(256 438 047)
Invested	-	45 500 000	-	45 500 000
End of the year	-	130 423 033	-	130 423 033
<b>Cash at bank and on hand</b>				
Current accounts	<b>11 506 857</b>	16 567 693	<b>11 506 857</b>	16 399 314
Cash on hand	<b>3 900</b>	3 750	<b>3 900</b>	100
	<b>11 510 757</b>	16 571 443	<b>11 510 757</b>	16 399 414
<b>Fixed interest and other money market instruments</b>				
Beginning of the year	-	-	-	-
Invested	<b>136 611 408</b>	-	<b>136 611 408</b>	-
Realised gains	<b>5 943</b>	-	<b>5 943</b>	-
Unrealised gains	<b>79 725</b>	-	<b>79 725</b>	-
Interest received	<b>3 406 430</b>	-	<b>3 406 430</b>	-
Investment fees	<b>(89 290)</b>	-	<b>(89 290)</b>	-
Proceeds from sales	<b>(3 118 420)</b>	-	<b>(3 118 420)</b>	-
End of the year	<b>136 895 796</b>	-	<b>136 895 796</b>	-
<b>Cash and cash equivalents</b>	<b>148 406 553</b>	<b>146 994 476</b>	<b>148 406 553</b>	<b>146 822 447</b>

The short-term bank deposits and cash at bank are held at the AAA rated banks in South Africa. The short-term bank deposits have a maturity date of less than one year, bear interest at rates between 10.75% and 10.90% (2007: 10.75% and 10.90%) and their carrying values approximate their fair values due to the short-term maturities of these deposits.

Cash at bank and on hand, short-term bank deposits and fixed interest and other money market instruments are taken into account for the purposes of the cash flow statement.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

**9. CASH AND CASH EQUIVALENTS (continued)**

Changes in the fair value of these financial assets are recorded in investment income in the income statement. (Note 19) The credit quality of these financial assets is neither past due nor impaired. The counterparties are existing customers (more than 6 months) without external credit rating and no defaults in the past.

None of the financial assets is either past due or impaired.

**10. POST RETIREMENT LIABILITY**

Post employment medical benefits

The Society contributes towards the post retirement medical aid contributions of eligible employees employed by the group as at 31 December 2008. The method of accounting and valuation is similar to those for defined benefit schemes. The actuarial valuation to determine the liability is performed annually.

	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Beginning of the year	6 213 512	5 701 500	6 213 512	5 701 500
Expenses in respect of the current year	1 492 864	512 012	1 492 864	512 012
Benefits paid	<b>(389 384)</b>	(366 648)	<b>(389 384)</b>	(366 648)
Service cost	<b>141 505</b>	132 500	<b>141 505</b>	132 500
Intercompany transfers	<b>39 454</b>	-	<b>39 454</b>	-
Interest cost	<b>535 644</b>	470 608	<b>535 644</b>	470 608
Actuarial loss	<b>1 165 645</b>	275 552	<b>1 165 645</b>	275 552
End of the year	<b>7 706 376</b>	6 213 512	<b>7 706 376</b>	6 213 512

The liability is fully funded. The methodologies and assumptions used in this valuation remained unchanged from those used in the previous valuation:

Gross discount rate	<b>8.5 %p.a.</b>	8.5 %p.a.	<b>8.5 %p.a.</b>	8.5 %p.a.
Health care cost inflation	<b>6.5 %p.a.</b>	5.9 %p.a.	<b>6.5 %p.a.</b>	5.9 %p.a.
Pre-retirement mortality	Males: SA72-77; Females: SA72-77 rated down 3 years (same for 2007)			
Post-retirement mortality	Males: PA90 (base table); Females: PA90 (base table) (PFL 90 base table used in 2007)			
Continuation of membership at retirement	<b>90 %</b>	90 %	<b>90 %</b>	90 %
Assumed rate of return	<b>8.5 %p.a.</b>	8.0 %p.a.	<b>8.5 %p.a.</b>	8.0 %p.a.
Assumed rate of contribution increases	<b>20.0 %p.a.</b>	8.5 %p.a.	<b>20.0 %p.a.</b>	8.5 %p.a.
Assumed net discounted rate	<b>2.0 %p.a.</b>	2.5 %p.a.	<b>2.0 %p.a.</b>	2.5 %p.a.

**DE BEERS BENEFIT SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)****10. POST RETIREMENT LIABILITY (continued)**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> R	<u>2007</u> R	<u>2008</u> R	<u>2007</u> R
The amounts recognised in the income statement were as follows:				
Post retirement medical payments	<b>382 195</b>	339 846	<b>179 539</b>	165 005
Expenses in respect of the current year	<b>1 492 864</b>	512 012	<b>1 492 864</b>	512 012
Benefits paid	<b>(389 384)</b>	(366 648)	<b>(389 384)</b>	(366 648)
Service cost	<b>141 505</b>	132 500	<b>141 505</b>	132 500
Intercompany transfers	<b>39 454</b>	-	<b>39 454</b>	-
Interest cost	<b>535 644</b>	470 608	<b>535 644</b>	470 608
Actuarial loss	<b>1 165 645</b>	275 552	<b>1 165 645</b>	275 552
	<b>1 875 059</b>	851 858	<b>1 672 403</b>	677 017

Of the total charge R1 492 864 (2007: R512 012), R179 539 (2007: R165 005) and R202 656 (2007: R174 841) were included in 'post retirement medical expenses', 'administration expenses' and 'costs incurred in provision of own facilities to external parties'.

Pension benefits

All the employees of the group are members of the De Beers Pension Fund. The Fund is a self-administered hybrid defined contribution fund and is governed by the Pension Fund Act, 1956. The most recent actuarial report dated 1 March 2007, indicated that the Fund was in a sound financial position. The next actuarial valuation will be performed in 2010, with annual actuarial reviews in interim periods.

**11. TRADE AND OTHER PAYABLES**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> R	<u>2007</u> R	<u>2008</u> R	<u>2007</u> R
Contributions received in advance	<b>2 339 665</b>	8 047 044	<b>2 339 665</b>	8 047 044
Sundry accounts payable	<b>8 438 722</b>	8 758 625	<b>8 438 722</b>	5 138 532
	<b>10 778 387</b>	16 805 669	<b>10 778 387</b>	13 185 576

At 31 December 2008 the carrying amounts of accounts payable approximate their fair values due to the short-term maturities of these liabilities and is not past due or impaired. Trade and other payable balances amounting to R3 256 804 was transferred from the subsidiaries to the Society on 31 December 2008 as per the sales of shares agreement and are included in sundry accounts payable.

**DE BEERS BENEFIT SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)****12. RISK TRANSFER ARRANGEMENT**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> R	<u>2007</u> R	<u>2008</u> R	<u>2007</u> R
Own claims incurred if no risk transfer arrangement was in place	1 102 308	2 572 792	1 102 308	2 572 792
Saving due to risk transfer arrangement	<u>(409 214)</u>	<u>(1 942 707)</u>	<u>(409 214)</u>	<u>(1 942 707)</u>
Expense incurred	<u>693 094</u>	<u>630 085</u>	<u>693 094</u>	<u>630 085</u>

The Society operated a risk transfer contract with ER24 service for emergency ambulance services. The Society pays a fixed fee for the risk transfer arrangement.

**13. OUTSTANDING CLAIMS PROVISION**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> R	<u>2007</u> R	<u>2008</u> R	<u>2007</u> R
Beginning of the year	14 300 000	13 400 000	14 300 000	13 400 000
Payments in respect of prior years	<u>(14 422 637)</u>	<u>(12 360 474)</u>	<u>(14 422 637)</u>	<u>(12 360 474)</u>
Over/(under) provision in respect of prior year	<u>(122 637)</u>	1 039 526	<u>(122 637)</u>	1 039 526
Adjustment for current year	<u>12 422 637</u>	<u>13 260 474</u>	<u>12 422 637</u>	<u>13 260 474</u>
End of the year	<u>12 300 000</u>	<u>14 300 000</u>	<u>12 300 000</u>	<u>14 300 000</u>

**Process used to determine the assumptions**

The Society requested the Risk Monitor Group to estimate the provision for outstanding claims for the scheme at 31 December 2008 using the Health Monitor Computer Model (Health Monitor). The Health Monitor estimates claims incurred by service date based on the scheme's demographic profile and claims experience.

The Health Monitor has been contracted by the Society for more than four years, and has proven itself to be a reliable predictor of claims incurred. Results from the Health Monitor are reconciled with actual paid claims on a monthly basis and adjustments made where necessary to ensure that results remain accurate.

The Health Monitor is contracted to estimate provisions on a monthly basis for outstanding claims for purposes of constructing the Society's management accounts.

The assumptions used in estimating the claims incurred for the Society are as follows:

- o **Membership**

The actual demographics of the scheme were used, incorporating all membership movements for the period January to December 2008. Membership is analysed on a beneficiary-level by option, age, gender, area and type of dependant and chronic status of the dependant.

**13. OUTSTANDING CLAIMS PROVISION (continued)**

o **Tariff and utilisation increases**

- An average price increase of 9% (2007: 6%) for all claim categories (including hospitalization tariff and non-tariff items, medicine, and professional medical fees) was assumed.
- The Health Monitor Computer Model automatically incorporates the effect of ageing of the population on the utilization of health services.
- Utilization escalation has been provided for at a level of 1.5% (2007: 1.5%) (over and above the effect of ageing) to provide for the so-called “technology effect” as well as the impact of HIV/AIDS.

o **Calculation of provision**

The provision for outstanding claims is calculated as the difference between the Health Monitor’s estimate of claims incurred for the period 1 January 2008 to 31 December 2008 and actual claims paid in 2008 for services in 2007.

o **Reasonability checks**

The reasonability of the provision has been assessed as follows:

- Actual claims paid in 2008 for 2007, adjusted for inflation and the number of beneficiaries in the Society;
- Traditional “chain ladder” methods, using claims development patterns derived from 2006 and 2007 as well as an analysis of the development patterns for December 2006 and December 2007 in isolation; and
- An analysis of claims already paid in 2009 for 2008, at the time of signing the annual report.

The Society believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

**14. NET CONTRIBUTION INCOME**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
Net contributions	<u>209 545 260</u>	<u>206 875 766</u>	<u>209 545 260</u>	<u>206 875 766</u>

**15. NET CLAIMS INCURRED**

Claims paid and reported	<b>167 533 606</b>	160 891 675	<b>167 533 606</b>	160 891 675
Related party claims (note 20)	<b>35 723 880</b>	33 133 970	<b>35 723 880</b>	33 133 970
Gross claims paid and reported	<b>203 257 486</b>	194 025 645	<b>203 257 486</b>	194 025 645
Discount received on claims	<b>(2 991 632)</b>	(1 912 318)	<b>(2 991 632)</b>	(1 912 318)
	<b>200 265 854</b>	192 113 327	<b>200 265 854</b>	192 113 327
Adjustment for outstanding claims provision (note 13)	<b>12 422 637</b>	13 260 474	<b>12 422 637</b>	13 260 474
	<b>212 688 491</b>	205 373 801	<b>212 688 491</b>	205 373 801

**DE BEERS BENEFIT SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)****16. MANAGED CARE – MANAGEMENT SERVICES**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
Hospital pre-authorisation	861 285	811 511	861 285	811 511
Claims switch out	-	14 855	-	14 855
Oncology protocols	-	48 735	-	48 735
	<b>861 285</b>	<b>875 101</b>	<b>861 285</b>	<b>875 101</b>

**17. ADMINISTRATION EXPENSES**

Actuary costs	379 620	407 610	379 620	407 610
Audit fees - Audit services	177 663	165 870	177 663	165 870
Audit fees - Internal audit	110 092	75 953	110 092	75 953
Bank charges	202 893	226 403	202 893	226 403
Building and maintenance	124 163	337 839	124 163	337 839
Computer expenses	697 259	900 275	697 259	900 275
Depreciation	154 723	186 438	154 723	186 438
Fidelity insurance	103 799	75 666	103 799	75 666
Medical administration system	3 237 486	3 534 866	3 237 486	3 534 866
Postage	259 427	168 305	259 427	168 305
Principal Officer's remuneration	585 084	812 014	585 084	812 014
Printing and stationery	67 946	199 971	67 946	199 971
Telephone	119 275	118 208	119 275	118 208
Trustees' expenses	113 008	167 288	113 008	167 288
Staff costs	5 969 610	6 754 584	5 969 610	6 754 584
Other expenses	947 986	937 773	947 986	937 773
	<b>13 250 034</b>	<b>15 069 063</b>	<b>13 250 034</b>	<b>15 069 063</b>

**18. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES**

Provision for impairment	147 934	48 586	147 934	48 586
Written off as uncollectible	3 286	-	3 286	-
Recovered amount reversed	-	(1 461)	-	(1 461)
	<b>151 220</b>	<b>47 125</b>	<b>151 220</b>	<b>47 125</b>

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**



**19. INVESTMENT INCOME**

	<b>Group</b>		<b>Society</b>	
	<b>2008</b> <b>R</b>	<b>2007</b> <b>R</b>	<b>2008</b> <b>R</b>	<b>2007</b> <b>R</b>
<b>Other financial assets at fair value through profit or loss</b>	<b>23 611 519</b>	1 806 678	<b>23 611 519</b>	1 806 678
Net realised gains	<b>6 916 747</b>	2 108	<b>6 916 747</b>	2 108
Net unrealised gains	<b>10 855 506</b>	1 753 817	<b>10 855 506</b>	1 753 817
Interest received	<b>5 839 266</b>	50 753	<b>5 839 266</b>	50 753
<b>Cash and cash equivalents</b>	<b>5 748 198</b>	25 548 193	<b>5 748 198</b>	25 548 193
Net realised gains	<b>5 943</b>	-	<b>5 943</b>	-
Net unrealised gains	<b>79 725</b>	-	<b>79 725</b>	-
Interest received	<b>5 662 530</b>	25 548 193	<b>5 662 530</b>	25 548 193
	<b>29 359 717</b>	27 354 871	<b>29 359 717</b>	27 354 871

**20. SURPLUS/(DEFICIT) ON OWN FACILITIES**

Income from services rendered to third parties	<b>6 729 417</b>	6 200 718	-	-
Cost incurred in operating own facilities	<b>(7 529 810)</b>	(7 022 356)	-	-
Changes in inventories	<b>(36 952 557)</b>	(34 655 947)	-	-
Administrative expenses	<b>(6 678 407)</b>	(5 835 977)	-	-
Taxation	<b>324 927</b>	335 598	-	-
Profit on disposal of property, plant and equipment	<b>52 347</b>	-	-	-
Costs relating to members included in claims (note 15)	<b>35 723 880</b>	33 133 970	-	-
	<b>(800 393)</b>	(821 638)	-	-

Up until 31 December 2008 the Society provided medicine to its members from its subsidiaries. The Society disposed (note 22 and 24) of its investments in these subsidiaries on 31 December 2008 and outsourced the provision of medication.

**DE BEERS BENEFIT SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)****21. SUNDRY INCOME**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
Fraud recoveries	-	171 000	-	171 000
DART administration fee	<b>243 241</b>	317 343	<b>243 241</b>	317 343
Other income	-	1 672	-	1 672
Profit on disposal of property, plant and equipment	<b>61 328</b>	-	<b>61 328</b>	-
Proceeds on disposal	<b>66 553</b>	-	<b>66 553</b>	-
Net book value	<b>(5 225)</b>	-	<b>(5 225)</b>	-
	<b>304 569</b>	490 015	<b>304 569</b>	490 015

**22. LOSS ON DISPOSAL OF INVESTMENTS IN SUBSIDIARIES**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
Proceeds on disposal	<b>2 321 866</b>	-	<b>2 321 866</b>	-
Shares at cost	<b>(203)</b>	-	<b>(203)</b>	-
Loan accounts at cost	<b>(4 548 965)</b>	-	<b>(4 548 965)</b>	-
Benefit Society Dispensary (Proprietary) Limited	<b>(2 152 432)</b>	-	<b>(2 152 432)</b>	-
Hobbes & Associates Incorporated	<b>(2 396 533)</b>	-	<b>(2 396 533)</b>	-
	<b>(2 227 302)</b>	-	<b>(2 227 302)</b>	-
Retained loss since acquisition	<b>1 622 031</b>	-	-	-
	<b>(605 271)</b>	-	<b>(2 227 302)</b>	-

The shares were sold at nominal value and the loan accounts at their fair value as at 31 December 2008 as per the sale of shares agreement. (note 24)

**DE BEERS BENEFIT SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)****23. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>	<u>2008</u> <u>R</u>	<u>2007</u> <u>R</u>
Net surplus for the year	<b>7 706 910</b>	13 440 626	<b>6 885 272</b>	14 262 264
Adjusted for:				
Loss on disposal of investments in subsidiaries (note 20)	<b>605 271</b>	-	<b>2 227 302</b>	-
Provision for impairment (note 18)	<b>147 934</b>	47 125	<b>147 934</b>	47 125
Provision for post retirement medical expenses (note 10)	<b>1 492 864</b>	512 012	<b>1 492 864</b>	512 012
Depreciation (note 2)	<b>211 520</b>	255 129	<b>154 723</b>	186 448
Taxation (note 20)	<b>(324 927)</b>	(335 598)	-	-
Profit on disposal of property, plant and equipment (note 20 and 21)	<b>(113 675)</b>	-	<b>(61 328)</b>	-
Interest received (note 19)	<b>(11 501 796)</b>	(25 598 946)	<b>(11 501 796)</b>	(25 598 946)
Other financial assets at fair value through profit or loss	<b>(17 772 253)</b>	(1 755 925)	<b>(17 772 253)</b>	(1 755 925)
Realised gains (note 19)	<b>(6 916 747)</b>	(2 108)	<b>(6 916 747)</b>	(2 108)
Unrealised gains (note 19)	<b>(10 855 506)</b>	(1 753 817)	<b>(10 855 506)</b>	(1 753 817)
Operating deficit before working capital changes	<b>(19 548 152)</b>	(13 435 577)	<b>(18 427 282)</b>	(12 347 022)

**24. PROCEEDS ON DISPOSAL OF SUBSIDIARIES**

On 31 December 2008 the Society disposed of the shares and loan accounts in its wholly owned subsidiaries The Benefit Society Dispensary (Proprietary) Limited and Hobbes & Associates Incorporated to Lauren Lyn James (Proprietary) Limited. The provision for chronic medication was outsourced to Chronicare effective from 1 January 2009. The Society has entered into a 3 year Designated Service Provider (DSP) agreement with Chronicare. Some of the directors of Chronicare are also the shareholders of Lauren Lyn James (Proprietary) Limited.

In terms of the sale of shares agreement the purchase price was determined by the nominal value of the shares, the fair value of the property, plant and equipment and inventory as at 31 December 2008. Deferred tax assets were excluded from the agreement. Certain trade and other receivables, cash in bank and trade and other payables are for the account of the Society.

The net assets as at 31 December 2008 are as follows:

Property, plant and equipment	<b>30 130</b>	-	<b>30 130</b>	-
Trade and other receivables	<b>383 354</b>	-	<b>383 354</b>	-
Inventory	<b>1 853 125</b>	-	<b>1 853 125</b>	-
Deferred tax	<b>660 528</b>	-	<b>660 528</b>	-
Net assets	<b>2 927 137</b>	-	<b>2 927 137</b>	-
Loss on disposal of subsidiaries	<b>(605 271)</b>	-	<b>(605 271)</b>	-
Proceed on disposal	<b>2 321 866</b>	-	<b>2 321 866</b>	-

**DE BEERS BENEFIT SOCIETY****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)****25. RELATED PARTY TRANSACTIONS**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
<b>Participating Employers</b>				
Gross contributions received from Associated Employers (note 14)	<u>209 545 260</u>	<u>206 875 766</u>	<u>209 545 260</u>	<u>206 875 766</u>

The following Employers participate in the Society in terms of the rules:

- o De Beers Group Services (Proprietary) Limited (Principal Employer)
- o De Beers Consolidated Mines Limited,
- o DTC South Africa
- o DTC Valuations Namibia (Proprietary) Limited,
- o De Beers Benefit Society,
- o De Beers Marine (Proprietary) Limited,
- o De Beers Namibia (Proprietary) Limited
- o De Beers Marine Namibia (Proprietary) Limited,
- o De Beers Pension Fund,
- o Debswana Diamond Company (Proprietary) Limited,
- o Namdeb Diamond Corporation (Proprietary) Limited,
- o Petra Diamonds Limited; and
- o Any other company, organisation of affiliate that has a specific association or relationship with the "EMPLOYER or ASSOCIATED EMPLOYERS", approved as such by the "EMPLOYER or ASSOCIATED EMPLOYERS", with or without any restriction on MEMBERSHIP as the "EMPLOYER or ASSOCIATED EMPLOYERS" may impose.

The Principal Employer has nominated half the Board of Trustees and do not participate in the Society's financial and operating decisions.

	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
<b>Subsidiaries</b>				
Medicine and pharmaceutical supplies (note 20)	<u>35 723 880</u>	<u>33 133 970</u>	<u>35 723 880</u>	<u>33 133 970</u>
<b>Key personnel and close family members</b>				
Trustee remuneration and other considerations	<b>113 008</b>	167 288	<b>113 008</b>	167 288
Trustees – contributions	<b>254 112</b>	119 822	<b>254 112</b>	119 822
Trustees – claims	<b>208 934</b>	504 998	<b>208 934</b>	504 998
Trustees – claims debt	<b>6 404</b>	1 526	<b>6 404</b>	1 526
Principal Officer – remuneration	<b>585 084</b>	812 014	<b>585 084</b>	812 014
Principal Officer – contribution	<b>30 096</b>	27 528	<b>30 096</b>	27 528
Principal Officer – claims	<b>23 524</b>	22 167	<b>23 524</b>	22 167
Principal Officer – claims debt	<b>10</b>	282	<b>10</b>	282

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

**25. RELATED PARTY TRANSACTIONS (continued)**

	<u>Group</u>		<u>Society</u>	
	<u>2008</u> R	<u>2007</u> R	<u>2008</u> R	<u>2007</u> R
<b>Key personnel and close family members</b>				
Other key personnel – remuneration	799 768	878 688	799 768	878 888
Other key personnel – contribution	42 264	38 562	42 264	38 562
Other key personnel – claims	29 250	29 896	29 250	29 896
Other key personnel – claims debt	532	929	532	929

**Breakdown of trustee remuneration and other considerations:**

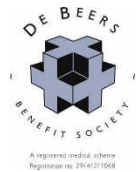
<b>2008</b>	<b>Attendance fees</b> R	<b>Conference fees</b> R	<b>Travelling cost</b> R	<b>Total</b> R
R M Crawford	-	-	2 246	2 246
S E O Dietrich	-	-	3 192	3 192
R W Ketley	-	-	3 756	3 756
L A A Loock	-	-	2 947	2 947
J Moalusi	-	4 515	3 148	7 663
B R Bishop	9 520	5 758	17 082	32 360
K P Quinn	9 520	5 758	4 920	20 198
W Endersby	19 040	4 515	17 091	40 646
	<b>38 080</b>	<b>20 546</b>	<b>54 382</b>	<b>113 008</b>

<b>2007</b>	<b>Attendance fees</b> R	<b>Conference fees</b> R	<b>Travelling cost</b> R	<b>Total</b> R
R M Crawford	-	-	7 765	7 765
R W Ketley	-	-	7 765	7 765
L A A Loock	-	-	7 765	7 765
J Moalusi	-	2 150	5 928	8 078
T G Baldwin	4 440	8 810	5 220	18 470
B R Bishop	8 880	8 810	27 030	44 720
K P Quinn	8 880	8 810	14 624	32 314
W Endersby	8 880	-	13 553	22 433
J H Britz	-	-	10 214	10 214
S D Martin	-	-	7 764	7 764
	<b>31 080</b>	<b>28 580</b>	<b>107 628</b>	<b>167 288</b>

## DE BEERS BENEFIT SOCIETY

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)



#### 25. RELATED PARTY TRANSACTIONS (continued)

	<u>Group</u>		<u>Society</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
<b>Loans to related parties</b>				
Beginning of the year	-	-	3 853 194	2 175 700
Loan advances	-	-	36 419 651	34 811 464
Loan repayments received	-	-	(35 723 880)	(33 133 970)
Disposal of subsidiaries	-	-	(4 548 965)	-
	<hr/>	<hr/>	<hr/>	<hr/>
End of the year (note 8)	-	-	-	3 853 194
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### 26. FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risk: market risk, credit risk and liquidity risk. The group overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance.

The Society's financial instruments consist mainly of other financial assets through profit or loss in the form of insurance linked policies, cash and cash equivalents, trade and other receivables and trade and other payables.

##### Principles of risk management

The Society is exposed in particular to risks from movements in interest rates and the equity market that affects its assets, liabilities, and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities. Risk management is carried out by the Society's management on behalf of the Board of Trustees.

##### Credit risk

The Society's credit risk is primarily attributable to amounts receivable in respect of members' co-payments. Active workings members' co-payments are endorsed by the principal employer and other associated employers. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Society's management based on prior experience and the current economic environment.

The credit risk on liquid funds is limited because the counter parties are existing customer (more than 6 months) with no defaults in the past. These counter parties are banks with high credit ratings and registered investment managers. The Society has no significant concentration of credit risk, with exposure spread over a large number of counter parties. Management does not expect any losses from non-performance by these counterparties. The sensitivity analysis in respect of credit risk in respect of healthcare receivables is as follows:

<b>Healthcare Receivables</b>	<b>Fair value at 31 Dec 2008</b>	<b>Deteriorate by 1 %</b>	<b>Deteriorate by 2 %</b>	<b>Deteriorate by 5 %</b>	<b>Deteriorate by 10 %</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
2008	11 785 854	117 858	235 717	589 293	1 178 585
2007	6 819 271	68 193	136 386	340 965	681 930

Prepayments are excluded as the analysis is only required for financial instruments. Loans to related parties have also been excluded from the analysis as the subsidiaries have been disposed of on 31 December 2008.

**26. FINANCIAL RISK MANAGEMENT (continued)****Foreign currency risks**

Regulation 30, Annexure B, Category 4 (b) does not permit the Society to hold shares in territories outside the Republic. The Society however had two incidents of contraventions in 2008. The following actions have been taken:

- The Society received British American Tobacco (BTI) shares during October 2008 due to local companies Remgro and Richemont unbundling their interest in British American Tobacco. These shares are considered as “foreign shares” due to its status as an inward listed security on the Johannesburg Stock Exchange (JSE) by the South African Reserve Bank and the Council for Medical Schemes. The Society has applied for exemption from the Regulation 30 limits in respect of the British American Tobacco (BTI) shares, as set out in Circular 30 of 2008 of the Council for Medical Schemes.
- The other non-compliance matter has been addressed by disposing of the shares which resulted in the Society exceeding the limits.

These financial instruments are held within the linked insurance policies at fair value through profit or loss. The fair value of insurance policies are valued at the unit value in which the contractual benefits are denominated multiplied by the number of units at the statement of net assets and funds date. The Society’s risk on these foreign assets is limited.

**Interest rate risk**

During the year the Board of Trustees recognised that the investment climate was changing and decided to review its policy of investing mainly in linked insurance policies. Following the outcome of this review a decision was made to transfer some of the assets to fixed interest and other money market instruments.

The table below summarises the Society’s exposure to institutional risk for interest bearing investments at 31 December 2008.

<b>Institution (Cash and cash equivalents)</b>	<b>2008 R</b>	<b>2007 R</b>
ABSA	-	30 097 192
FNB	-	40 065 699
Nedbank	<b>87 052</b>	40 129 951
Standard Bank	<b>11 423 705</b>	36 529 605
Taquanta Asset Managers	<b>136 895 796</b>	-
	<b>148 406 553</b>	<b>146 822 447</b>

The majority of the assets held by Taquanta Asset Managers are invested in domestic cash, fixed interest and money market instruments with the 5 major banks with AAA ratings.

The sensitivity analysis in respect of interest rate risk in respect of cash and cash equivalents is as follows:

<b>Cash and cash equivalents</b>	<b>Fair value at 31 Dec 2008 R</b>	<b>Deteriorate by 1% R</b>	<b>Deteriorate by 2% R</b>	<b>Improve by 1% R</b>	<b>Improve by 2% R</b>
2008	148 406 553	(1 484 066)	(2 968 131)	1 484 066	2 968 131
2007	146 822 447	(1 468 224)	(2 936 449)	1 468 224	2 936 449

**Investment market risk**

The linked insurance policies are invested in pooled funds which are valued at fair value and are susceptible to market fluctuations. Investments are managed with the aim of maximising the Society’s returns while limiting risk to acceptable levels within the framework of statutory requirements.

The market value of investments will fluctuate because of changes in market prices. Changes in market value are recorded through profit and loss.

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

**26. FINANCIAL RISK MANAGEMENT (continued)**

**Investment market risk (continued)**

The linked insurance policies are neither past due nor impaired. The assets underlying the linked insurance policies are exposed to the equity and bond market. The majority of assets, 59% of total insurance linked policies were invested in cash and other money market instruments. Equities and bonds are equitably allocated to all sectors of the market.

Risk management credit/counter party risk analysis as at 31 December 2008:

	<b>Linked insurance policies held R</b>	<b>Cash and cash equivalents R</b>	<b>Total R</b>	<b>%</b>
<b><u>2008</u></b>				
<b>Banks</b>				
Nedbank	-	87 052	87 052	0.1 %
Standard Bank	-	11 423 705	11 423 705	3.5 %
<b>Asset Managers – Local</b>				
Taquanta Asset Managers	924 745	136 895 796	137 820 541	42.0 %
Allan Gray	113 980 897	-	113 980 897	34.8 %
Investment Solutions	64 459 505	-	64 459 505	19.6 %
	<u>179 365 147</u>	<u>148 406 553</u>	<u>327 771 700</u>	<u>100.0 %</u>
<b><u>2007</u></b>				
<b>Banks</b>				
Nedbank	-	30 097 192	30 097 192	9.2 %
ABSA	-	40 065 699	40 065 699	12.2 %
FNB	-	40 129 951	40 129 951	12.3 %
Standard Bank	-	36 529 605	36 529 605	11.2 %
<b>Asset Managers – Local</b>				
Allan Gray	117 054 790	-	117 054 790	35.8 %
Investment Solutions	63 512 895	-	63 512 895	19.3 %
	<u>180 567 685</u>	<u>146 822 447</u>	<u>327 390 132</u>	<u>100.0 %</u>

Linked insurance policy market exposure as at 31 December 2008:

<b>Asset Managers – Local</b>	<b>Fair value at 31 Dec 2008 R</b>	<b>Market movement by 5% R</b>	<b>Market movement by 10% R</b>	<b>Market movement by - 5% R</b>	<b>Market movement by - 10% R</b>
Taquanta	924 745	46 237	92 475	(46 237)	(92 475)
Allan Gray	113 980 897	5 699 044	11 398 089	(5 699 044)	(11 398 089)
Investment Solutions	64 459 505	3 222 975	6 445 950	(3 222 975)	(6 445 950)
	<u>179 365 147</u>	<u>8 968 256</u>	<u>17 936 514</u>	<u>(8 968 256)</u>	<u>(17 936 514)</u>

**26. FINANCIAL RISK MANAGEMENT (continued)****Liquidity risk management**

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due. The Society's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation. The Society manages liquidity risk by monitoring forecasted cash flows and ensuring that adequate cash funds are available. All the Society's liabilities are payable within one year, except for post retirement liability. The estimated values of the Society's current financial instruments carrying value approximate their fair values due to the short-term maturities of these assets.

Forecasted liquidity reserve per 31 December is as follows:

	<b>2009</b>	<b>2012</b>
	<b>R</b>	<b>R</b>
Opening balance	308 337 954	309 022 727
Gross underwriting result	(4 265 265)	(17 061 060)
Administration expenses	(16 615 000)	(66 460 000)
Investment income	21 565 038	86 260 152
Closing balance	<u>309 022 727</u>	<u>311 761 819</u>

**Insurance risk management**

The primary insurance activity carried out by the Society assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of the Society's members. As such the Society is exposed to the uncertainty surrounding the timing and severity of claims under contract. The Society also has exposure to market risk through its insurance and investment activities. The Society manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, fraud detection methods and monitoring of emerging issues.

The types of benefits offered by the Society in return for monthly contributions are indicated below:

- In-hospital benefits cover all cost incurred by members, whilst they are in hospital to receive pre-authorised treatment for certain conditions.
- Chronic benefits cover the cost of approved certain prescribed medicines consumed by members for chronic conditions/diseases, subject to registration on the chronic plan.
- Day-to-day benefits cover the cost up to 90% of the Reference Price List (PRL) tariff of all out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.
- All prescribed minimum benefits.

Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The Society limits a portion of the risks it underwrites so that it can control its exposures to losses and protect capital resources. A preferred provider network agreement exists between the Society and Medi-Clinic for the rendering of private hospital services and this agreement is further enforced by the inclusion of ER24 (risk transfer arrangement) in the preferred provider network agreement.

**27. CAPITAL MANAGEMENT**

The objective of the Society is to provide members with competitive medical benefits in exchange for regular contributions. To ensure that the level of benefit provided is reasonable, the Trustees have decided to adopt a strategy that ensures that:

## **DE BEERS BENEFIT SOCIETY**

### **NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

#### **27. CAPITAL MANAGEMENT (continued)**

- A major part of the surplus assets/funds is invested in portfolios that target a minimum real return of 3% to 6% above CPI , after fees;
- That the balance of assets is invested in liquid cash portfolios to be able to meet the regular cash flow demands of the Society; and
- Minimises risks and administration costs to an acceptable level.

The Board of Trustees actively managed the Society's surplus funds to ensure compliance with the Medical Schemes Act of 1998. The Act requires a solvency ratio of 25%. The solvency ratio of the Society at end December 2008 was 141% (2007: 145%). This ratio can be expressed as 16.9 months cover (2006: 17.4 months cover), compared to the prescribed minimum cover of 3 months. The Board of Trustees is cognisant of the fact that the Society's contingency reserve (solvency ratio) is substantially higher than the minimum required by law.

#### **28. TAXATION**

The Society is exempt from tax. The subsidiaries' income tax is provided for in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated annual financial statements.

#### **29. EVENTS AFTER BALANCE SHEET DATE**

No events have occurred subsequently to the end of the accounting period affecting the annual financial statements that the Trustees considered should be brought to your attention.

#### **30. CRITICAL ACCOUNTING JUDGEMENTS AND AREAS OF KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Society's accounting policies, management has made no material judgements, except for the post retirement liability (see note 10) and claims provision (see note 13), that have a significant effect on the amounts recognised in the annual financial statements.

#### **31. NON-COMPLIANCE**

The following non-compliance with the Act was identified during the course of the financial year: Contravention of Regulation 30, Annexure B, Category 4 (b). Annexure B does not permit the Society to hold shares in territories outside the Republic. The Society had two incidents of contraventions. The following actions have been taken:

- The Society received British American Tobacco (BTI) shares during October 2008 due to local companies Remgro and Richemont unbundling their interest in British American Tobacco. These shares are considered as "foreign shares" due to its status as an inward listed security on the Johannesburg Stock Exchange (JSE) by the South African Reserve Bank and the Council for Medical Schemes. The Society has applied for exemption from the Regulation 30 limits in respect of the British American Tobacco (BTI) shares, as set out in Circular 30 of 2008 of the Council for Medical Schemes.
- The other non-compliance matter has been addressed by disposing of the shares which resulted in the Society exceeding the limits.

The non-compliance increases the liquidity and investment risk of the Society attributable to foreign equities.

#### **32. CHANGES TO COMPARATIVES**

The following comparatives were reclassified to make the annual financial statements more relevant and comparable with current year classifications:

**DE BEERS BENEFIT SOCIETY**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)**

**32. CHANGES TO COMPARATIVES (continued)**

**32.1 Managed care: Management services**

R196 024 relating to consultancy fees has been reclassified from administration expenses to managed care: management services. (Note 16)

**32.2 Sundry income**

R317 343 relating to the De Beers Anti Retroviral Treatment Programme (DART) administration fees has been reclassified from administration expenses to sundry income. (Note 21)

**32.3 Cash flow to investing activities**

R178 761 007 relating to increase in other investments assets at fair value through profit or loss has been reclassified as purchase of assets, proceeds on disposal and cost incurred in managing assets.

**32.4 Discount received on claims**

An additional amount of R994 278 for 2007 discounts provided for has been included in the 2008 amount in respect of discount received on claims. (Note 15) The 2007 comparative was not reclassified as the 2007 amount also included an under provision for 2006. A reclassification would not have made the annual financial statements more relevant and comparable.

**32.5 Own facilities**

Net sales of R635 421 incorrectly recorded in prior years have been adjusted in the 2007 annual financial statements of the subsidiaries. The comparatives of the group have been changed accordingly. The classification of the trade receivables and payables has also been adjusted in the group to agree to the annual financial statements of the subsidiaries. The changes to the income statement and balance sheet can be summarised as follows:

Balance sheet

• Trade and other receivables	-	R 767 923
• Deferred income tax assets	-	R 244 839
• Trade and other payables	-	R (1 648 183)
• Accumulated funds	-	R 635 421

Income statement

• Cost incurred in provision of own facilities to external parties	-	R (635 421)
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Notes 5, 8, 11, 15, 20 and 23 have been amended to reflect this reclassification.