

DE BEERS BENEFIT SOCIETY

Registered in terms of the Medical Schemes Act 131 of 1998
as amended, under number 1068

ANNUAL REPORT

31 DECEMBER 2009



A registered medical scheme
Registration no. 1068

DE BEERS BENEFIT SOCIETY



ANNUAL REPORT 2009 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 (<i>Appointed 27 January 2006 as trustee</i>) (<i>Appointed 20 March 2008 as Chairman</i>)
Vice-Chairman	-	R W Ketley (<i>Appointed 30 April 1992</i>)
Representatives	-	C W Coltman (<i>Appointed 19 March 2008</i>) W Smerdon (<i>Appointed 2 February 2009</i>)

Trustees elected by members of the Society

B R Bishop (*Appointed 29 April 2004*)
W Endersby (*Appointed 25 April 2007*)
L A A Looek (*Appointed 25 September 2007*)
K P Quinn (*Appointed 25 April 2007*)

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, N Desai 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 2009 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 51605
Cape Town
8001

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

Investment Solutions Office Park
63 Wierda Road East
Wierda Valley
2196

P O Box 786055
Sandton
2146

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

7th Floor
Newlands Terraces
Boundary Road
Newlands
7700

P O Box 23450
Claremont
7735

Actuaries

The Risk Monitor Group

Ground Floor, Block J
Central Park
400-16th Road
Midrand
1683

Private Bag X17
Halfway House
1685

Auditors

PricewaterhouseCoopers Inc

2 Eglin Road
Sunninghill
2157

Private Bag X36
Sunninghill
2157

DE BEERS BENEFIT SOCIETY



ANNUAL REPORT 2009

CONTENTS	Pages
Notice to members	4
Report of the Board of Trustees	5 - 12
Statement of responsibility by the Board of Trustees	13
Statement of corporate governance by the Board of Trustees	14
Independent auditor's report to the Members of the De Beers Benefit Society	15
Statement of Financial Position	16
Statement of Comprehensive Income	17
Statement of Changes in Member Funds	18
Statement of Cash Flows	19
Notes to the annual financial statements	20 - 55

DE BEERS BENEFIT SOCIETY

NOTICE TO MEMBERS



NOTICE IS HEREBY GIVEN THAT THE 121st ANNUAL GENERAL MEETING OF THE DE BEERS BENEFIT SOCIETY WILL BE HELD AT THE KIMBERLEY CLUB, 35 CURRY STREET, KIMBERLEY ON 13 MAY 2010 AT 12H00:

The purpose of this meeting will be:

1. To approve the minutes of the 120th Annual General Meeting held on 21 May 2009.
2. To receive and consider the Annual Financial Statements of the Society, the report of the Board of Trustees and of the auditors for the year ended 31 December 2009.
3. To consider the appointment of auditors for the year ending 31 December 2010.
4. In terms of Rule 18.18 to approve that the honorarium payable per meeting attended to non-employee member-elected Trustees, be increased as follows on a backdated basis:
 - from R2 380 to R2 550 for the period January 2009 to December 2009; and
 - from R2 550 to R2 730 from 1 January 2010
5. To announce the results of the election of member Trustees which, in terms of the rules of the Society commenced in November 2009. (Nine principal members were nominated.)

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. Completed proxy forms should reach the Society's offices by close of business on 12 May 2010.

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 calendar days prior to the date of the meeting.

By order of the Board of Trustees.

L COETZEE
PRINCIPAL OFFICER

25 March 2010

84 Du Toitspan Road
KIMBERLEY
8301

The Board of Trustees has pleasure in submitting its one hundred and twenty first annual report for the year ended 31 December 2009.

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 benefit option.

1.3 Risk transfer arrangement

The Society operated a risk transfer contract with ER24 for emergency ambulance services. The Society paid a fee of R641 443 (2008: R693 094) for the risk transfer arrangement. The total cost that would have been incurred, for emergency ambulance services, if this agreement was not in place would have been R1 282 886 (2008: R1 102 308).

2. Financial results for the year under review

The Society reflected a total comprehensive income for the year of R17 559 200 (2008: R6 885 272) after incorporating investment income. The increase in the total comprehensive income for the year is mainly due to the investment returns for 2009 being higher than they were in the previous year.

The Society has however experienced a further decline in the membership since the beginning of 2009 with a concomitant increase in the average age of the Society's membership, the pensioner ratio and chronic status. These factors continue to contribute to the increase in the claims cost per member.

The Society accumulated funds have grown to R325 897 154 (2008: R308 337 954). The solvency ratio of the Society at 31 December 2009 was 129% (2008: 141%). This ratio can be expressed as 15.5 months cover (2008: 16.9 months cover), compared to the prescribed minimum cover of three (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 is however of the opinion that this is a prudent measure to help ensure the medium-term financial stability and viability of the Society in a rapidly changing South African healthcare environment and in view of the increasing age and claims cost profile of the membership.

Of total benefits paid in 2009, Hospitals comprised 36% (2008: 35%), Medicines 24% (2008: 23%), Specialists 21% (2008: 21%), General Practitioners 7% (2008: 7%), Dentists and Dental Specialists 4% (2008: 5%) and other benefit types 8% (2008: 9%).

3. Investment strategy of the Society

The Board of Trustees has the ultimate responsibility for the investment strategy of the Society and is assisted in the formation of the investment strategy by the Investment Committee, the Actuary and the Investment Advisors. 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. During the year under review the Investment Committee reviewed the investment strategy of the Society taking into consideration compliance with the Act, the risk and returns of the various investment instruments, the surplus funds available and medium- and long-term objectives. The following developments were considered in the review:

- Uncertainty regarding the National Health Insurance (NHI) and the impact thereof;
- Changes in membership demographics resulting in the volatility in solvency levels; and
- The overall reduction in real return expectations in the investment market.

DE BEERS BENEFIT SOCIETY

REPORT OF THE BOARD OF TRUSTEES (continued)

3. Investment strategy of the Society (continued)

Following the review, the investment objectives were redefined as follows:

- Capital preservation is of paramount importance;
- Liabilities are linked to medical inflation (CPI plus 2% - 3%) and investment returns would therefore need to target inflation plus 3%, and
- Predictability of income is a key requirement.

Given the change in the investment strategy and objectives, the Investment Committee has conducted a due diligence review of the investment managers in the market to determine which investment managers' philosophies would best support the investment objectives.

The Society invested mainly in linked insurance policies and cash instruments during 2009. Refer to note 4 (Page 31) (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, pricing guidelines, pre-authorisations and case management, management of the risk transfer arrangements, by monitoring emerging issues and by taking corrective action as required.

The Society, with the assistance of the Risk Monitor Group, 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 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.

The Society has embarked on an all embracing governance review project with goals and timelines agreed by the Board of Trustees. On completion by the end of 2010, the Society will have implemented relevant measures contained in the proposed guideline for governance for medical schemes that was issued by the Council for Medical Schemes. The best practices that are prescribed for the retirement fund industry (circular PF130) and King Report III will also be considered and adapted where appropriate to be in line with medical scheme requirements

6. Review of the accounting period's activities

6.1 Operational statistics

Membership	2009		2008	
	Members	Beneficiaries	Members	Beneficiaries
Membership at 1 January	8 081	18 954	8 383	20 343
New members	256	705	533	1 460
Members exited	(1 245)	(3 679)	(835)	(2 849)
Membership at 31 December	7 092	15 980	8 081	18 954
Average number of members / beneficiaries	7 421	16 970	8 232	19 648
Average age of beneficiaries		40		37
Dependant ratio at 31 December	1 :1.25		1 : 1.35	
Pensioner ratio at 31 December		14%		12%
Ratios per average member / beneficiary per month				
Net contribution income	2 511	1 098	2 121	889
Relevant healthcare expenditure	2 538	1 110	2 149	900
Non-healthcare expenditure	201	88	159	67
	2009		2008	
	%		%	
Relevant healthcare expenditure as % of net contributions	101.0		101.3	
Non-healthcare expenditure as % of net contributions	8.0		7.5	
Return on investment as % of investments	12.2		8.7	

6.2 Solvency ratio

	2009	2008
	R	R
Accumulated funds per Statement of Financial Position	325 897 154	308 337 954
<u>Less: Unrealised profits/losses</u>	<u>(37 126 614)</u>	<u>(12 689 047)</u>
Accumulated funds per Regulation 29	288 770 540	295 648 907
Gross contributions	223 639 867	209 545 260
Solvency ratio	129%	141%
Average accumulated funds per member at 31 December	R40 718	R36 586

6. Review of the accounting period's activities (continued)

6.3 Results of operations

The results of the De Beers Benefit Society are set out in the annual financial statements, and the trustees believe that no further clarification is required.

6.4 Claims and contributions

The Trustees are confident that the members receive value for money considering the administration cost, benefits and contribution rates of the Society. This is confirmed by the maintenance of its accumulated funds. 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.

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.

6.5 Reserve accounts

Movement in the reserves are set out in the Statement of Changes in Member Funds. There have been no unusual movements that the Trustees believe should be brought to the attention of the members of the medical scheme.

6.6 Outstanding claims

The basis of calculation of the outstanding claims provision is discussed in note 10 (Page 36) to the annual financial statements and this is consistent with the prior year. Details of the movement on the outstanding claims provision are set out in the same note.

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

7. 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 September 2009 in the determination of the contribution and benefits levels for the 2010 benefit year.

8. Auditors

In terms of Rule 25.1, the members appointed PricewaterhouseCoopers Incorporated as the Society's auditors for 2009.

9. Participating employers

During 2009 the participating employers finalised a restructuring process to reduce costs in light of the global financial crisis. As foreseen and planned by the Board of Trustees, this resulted in a significant reduction in working members and an increase in the pensioner members.

De Beers Consolidated Mines has indicated that it is in the process of stopping production at Namaqualand Mines and will be starting with the decommissioning of assets and the restoration of the area. The Board of Trustees are of the opinion that this will not have a significant effect given the small number of members employed at Namaqualand Mines. It will however reduce the number of active members and increase the number of pensioners due to early retirement offered by the employer.

DE BEERS BENEFIT SOCIETY

REPORT OF THE BOARD OF TRUSTEES (continued)

10. Events after statement of financial position 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.

11. Investments and loans in participating employers of members and other related parties

The Society holds no investments in the participating employers.

12. Related parties

Refer to related parties disclosure in note 20 (Page 41) to the annual financial statements: Trustee remuneration is disclosed in the same note.

13. Own facilities and subsidiaries

The Society disposed of its wholly owned subsidiaries, Benefit Society Dispensary (Pty) Ltd and Hobbes & Associates Inc, in 2008. The Society does not have any other subsidiaries or facilities.

14. Audit and Risk Committee

An Audit and Risk Committee continued to function during the year under review 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 and Risk Committee met twice during the year. An interim audit status report is forwarded to all committee members by the Internal Auditor between meetings. This report provides feedback on the status of the audit plan, the risk log and any issues that the Internal Auditor is of the opinion should be highlighted to the Audit and Risk Committee.

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

15. Investment Committee

An Investment Committee maintained its function during the year under review as mandated by the Board of Trustees by means of proper terms of reference as to its membership, authority and duties. This committee consists of four members. All the members, including the chairperson are not officers of the Society. The committee met on five occasions during the year. In addition to the five meetings held, a workshop was held on 4 August 2009 by the Board of Trustees to review and approve the investment strategy of the Society as proposed by the Investment Committee.

DE BEERS BENEFIT SOCIETY

REPORT OF THE BOARD OF TRUSTEES (continued)

15. Investment Committee (continued)

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.

The Principal Officer and Financial Manager attend all investment committee meetings and have unrestricted access to the chairman of the committee.

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)

16. Ad Hoc Benefits Review Committee

During the year under review an ad hoc Benefits Review Committee was established and mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. The committee consists of four members of whom three are members of the Board of Trustees and the fourth the Principal Officer. Only the Principal Officer is an officer of the Society. The committee met once during the year. The Actuary and the Manager also attended this meeting.

The mandate of the committee was to review the appropriateness of the benefits structure the Society provides to its members and to make recommendations to the Board of Trustees of any changes that may be required. In order to limit the Society's exposure to excessive medicine claims Generic Reference Pricing (GRP) was introduced.

The committee for the year under review comprised:

- S E O Dietrich (Chairman and Trustee)
- K P Quinn (Trustee)
- R W Ketley (Trustee)
- L Coetzee (Principal Officer)

17. Remuneration Committee

The Board of Trustees are in the process of establishing a remuneration committee in compliance with good governance principles as set out in *inter alia* the King Report III.

18. Meeting Attendance

Board Meetings	March	June	August	September	December
Principal Employer appointed					
S E O Dietrich	Yes	Yes	Yes	Yes	Yes
R W Ketley	Yes	Yes	Yes	Yes	Yes
C W Coltman	Yes	Yes	Yes	Yes	Apology
W Smerdon	Yes	Yes	Yes	Yes	Yes
Member appointed					
L A A Loock	Apology	Apology	Apology	Yes	Yes
K P Quinn	Yes	Yes	Yes	Yes	Yes
W Endersby	Yes	Yes	Apology	Yes	Yes
B R Bishop	Yes	Yes	Yes	Yes	Yes

REPORT OF THE BOARD OF TRUSTEES (continued)

18. Meeting Attendance (continued)

Investment Committee	March	June	August	September	November
S E O Dietrich	Yes	Yes	Yes	Yes	Yes
R W Ketley	Yes	Yes	Yes	Yes	Yes
W Endersby	Yes	Yes	Apology	Yes	Yes
C W Coltman	Yes	Yes	Yes	Yes	Yes

Audit Committee	March			December
R W Ketley	Yes			Yes
M K Changfoot*	Yes			Apology
I N Scheepers*	Yes			Yes
R Hannie*	Yes			Yes
W Endersby	Yes			Yes

Ad Hoc Benefits Review Committee		July		
S E O Dietrich		Yes		
K P Quinn		Yes		
R W Ketley		Apology		
L Coetzee**		Yes		

* Non trustee

** Principal Officer

19. Non-compliance

The following instances of non-compliance with the Act were identified during the course of the financial year:

Foreign share holding

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 received British American Tobacco (BTI) shares during October 2008 following the unbundling by local companies Remgro and Richemont of their respective interests. These shares are considered as "foreign shares" due to its status as an inward listed security on the JSE Securities Exchange by the South African Reserve Bank and the Council for Medical Schemes. The Society has received exemption from the Council of Medical Schemes until 28 October 2010 to ensure compliance.

As at 31 December 2009 the market value of the foreign share holding amounted to R3 278 163 (2008: R4 903 451).

Late receipt of contributions

Contravention of section 26(7). Contributions from the following employer groups were received later than three days after it became due in terms of the Society's rules:

- o Cullinan Diamond Mine (Petra)
- o Botswana Ash
- o Namdeb
- o Debswana
- o Kimberley Engineering Works

These employer groups were informed of non-compliance and requested to ensure future adherence. No contributions were received later than 8 days after the due date.

19. Non-compliance (continued)

Society generated a net healthcare deficit

Contravention of Section 33(2). In terms of Section 33(2) the Society 'shall be self-supporting in terms of membership and financial performance'. During the year the Society made a net healthcare deficit of R20 212 296 (2008: R18 489 419).

The Society's financial position at year end and results for the year is sound. This is confirmed by the exceptional solvency rate of 129% (2008: 141%) which exceeds the prescribed solvency ratio of 25%. It is not the intention of the Society to make a profit and therefore the investment income enables the Society to target a breakeven position after taking into account the investment income to ameliorate the net healthcare deficit.

The trustees monitor the actual results to ensure the net healthcare deficit is in line with the budgeted net healthcare deficit and any material variances are explained and corrective action taken when necessary.

DE BEERS BENEFIT SOCIETY

STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

FOR THE YEAR ENDED 31 DECEMBER 2009

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of the De Beers Benefit Society. The annual financial statements presented on pages 16 to 55 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 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 which enables the Trustees to ensure that the annual financial statements comply with the relevant legislation.

The 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 De Beers Benefit 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 De Beers Benefit 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 Principal Employer 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 15.

The annual financial statements were approved by the Board of Trustees on 25 March 2010 and are signed on its behalf by:


S E O DIETRICH
CHAIRMAN


R W KETLEY
VICE CHAIRMAN


L COETZEE
PRINCIPAL OFFICER

25 March 2010

DE BEERS BENEFIT SOCIETY

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

FOR THE YEAR ENDED 31 DECEMBER 2009

The De Beers Benefit Society is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The De Beers Benefit Society is 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
VICE CHAIRMAN



L COETZEE
PRINCIPAL OFFICER

25 March 2010

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE DE BEERS BENEFIT SOCIETY

We have audited the annual financial statements of De Beers Benefit Society, which comprise the Statement of Financial Position as at 31 December 2009, the Statement of Comprehensive Income, Statement of Changes in Member Funds, the Statement of Cash Flows and a summary of significant accounting policies and other explanatory notes, as set out on pages 16 to 55.

Trustees' Responsibility for the Annual Financial Statements

The Society's trustees are responsible for the preparation and fair presentation of these annual 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 annual 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 annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual 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 annual 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 annual 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 annual financial statements present fairly, in all material respects, the financial position of the Society as of 31 December 2009, and its financial performance and its 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: Leon de Wet
Registered Auditor
Sunninghill

25 March 2010

DE BEERS BENEFIT SOCIETY
STATEMENT OF FINANCIAL POSITION



AT 31 DECEMBER 2009

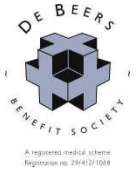
	<u>Notes</u>	<u>2009</u> R	<u>2008</u> R
ASSETS			
Non-current assets		319 554	381 732
Property, plant and equipment	2	306 495	369 571
Intangible assets	3	13 059	12 161
Current assets		358 030 068	339 434 079
Other financial assets at fair value through profit or loss	4	193 794 753	179 365 147
Trade and other receivables	5	7 316 417	11 662 379
Cash and cash equivalents	6	156 918 898	148 406 553
Total assets		358 349 622	339 815 811
FUNDS AND LIABILITIES			
Members' funds		325 897 154	308 337 954
Accumulated funds		325 897 154	308 337 954
Long term liabilities		9 305 222	7 706 376
Post retirement liability	7	9 305 222	7 706 376
Current liabilities		23 147 246	23 771 481
Trade and other payables	8	9 105 803	10 778 387
Risk transfer arrangement	9	641 443	693 094
Outstanding claims provision	10	13 400 000	12 300 000
Total funds and liabilities		358 349 622	339 815 811

DE BEERS BENEFIT SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009



	<u>Notes</u>	<u>2009</u> R	<u>2008</u> R
Net contribution income		223 639 867	209 545 260
Relevant healthcare expenditure		(225 983 811)	(212 279 276)
Net claims incurred	11	(226 625 254)	(212 688 491)
Net expense on risk transfer arrangement		641 443	409 215
<i>Risk transfer arrangement fees</i>		(641 443)	(693 093)
<i>Recoveries from risk transfer arrangement</i>		1 282 886	1 102 308
Gross healthcare results		(2 343 944)	(2 734 016)
Managed care: Management services	12	(943 907)	(861 285)
Administration expenses	13	(14 698 812)	(13 250 034)
Post retirement medical expense	7	(1 598 846)	(1 492 864)
Net impairment losses on healthcare receivables	14	(626 787)	(151 220)
Net healthcare results		(20 212 296)	(18 489 419)
Other income		39 820 686	29 664 286
Investment income	15	39 345 481	29 359 717
Sundry income	16	475 205	304 569
Other expenditure		(2 049 190)	(4 289 595)
Asset management and monitoring fees		(2 049 190)	(2 062 293)
Loss on disposal of investments in subsidiaries	17	-	(2 227 302)
Total comprehensive income for the year		17 559 200	6 885 272

DE BEERS BENEFIT SOCIETY
STATEMENT OF CHANGES IN MEMBER FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2009



	<u>2009</u>	<u>2008</u>
	<u>R</u>	<u>R</u>
<u>Accumulated Funds</u>		
Balance at beginning of the year	308 337 954	301 452 682
Total comprehensive income for the year	<u>17 559 200</u>	<u>6 885 272</u>
Balance at end of the year	<u>325 897 154</u>	<u>308 337 954</u>

DE BEERS BENEFIT SOCIETY
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009



	<u>Notes</u>	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flows from operations before working capital changes	18	(22 570 367)	(18 427 282)
Working capital changes			
Decrease / (Increase) in trade and other receivables		3 720 458	(8 219 496)
Decrease in trade and other payables		(1 724 237)	(2 344 181)
Increase / (Decrease) in outstanding claims provision		<u>1 100 000</u>	<u>(2 000 000)</u>
		(19 474 146)	(30 990 959)
Interest received		<u>17 826 720</u>	<u>5 662 530</u>
Net cash utilised in operating activities		<u>(1 647 426)</u>	<u>(25 328 429)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Other financial assets at fair value through profit or loss			
Purchase of investments	4	-	(114 000 000)
Proceeds on disposal of investments	4	8 969 330	137 146 117
Costs incurred in managing assets	4	1 298 702	1 667 940
Investments in subsidiaries			
Proceeds on disposal of subsidiaries	19	-	2 321 866
Property, plant and equipment and intangible assets			
Proceeds on disposal of assets	16	-	66 553
Purchase of assets	2 & 3	<u>(108 261)</u>	<u>(289 942)</u>
Net cash flow from investing activities		<u>10 159 771</u>	<u>26 912 534</u>
Net increase in cash and cash equivalents		8 512 345	1 584 105
Cash and cash equivalents at beginning of the year		<u>148 406 553</u>	<u>146 822 448</u>
Cash and cash equivalents at the end of the year	6	<u><u>156 918 898</u></u>	<u><u>148 406 553</u></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 which is reflected 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 notes 7 and 10.

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 2009 and are relevant to the Society's operations and have impacted on the presentation and disclosure in these annual financial statements.

IFRS 7 – *Financial Instruments: Disclosures*. This amendment requires enhanced disclosure about fair value measurements and liquidity risk. (Effective 1 Jan 2009)

IAS 1 - *Presentation of Financial Statements (revised)*. The aggregation of information in the financial statements has been changed and a Statement of Comprehensive Income, which enable readers to analyse changes in the members funds, was introduced. The revision also include changes in the titles of the financial statements (Effective 1 Jan 2009)

IAS 1 (2008) – *Presentation of Financial Statements*. Financial assets and liabilities classified as held for trading in terms of IAS 39 (Financial Instruments: Recognition and Measurement) should not be classified as current items if they do not meet the criteria. (Effective 1 Jan 2009)

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 2009 but they are not relevant to the Society's operations:

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 allows 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)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.3 Standards, amendments and interpretations effective in current period but not relevant (continued)

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 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).

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 revises the definition of "recoverable amount" by replacing the term "net selling price" with "fair value less the cost to sell", to be consistency with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). It also addresses issues that arise from assets that are rented and then subsequently sold on a routine basis. (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 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 IFRS's. (Effective 1 Jan 2009).

IAS 23 – *Borrowing Costs*. This amendment deals with 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 28 - *Investments in Associates*. This amendment deals with consequential amendments from changes to IFRS 3 - 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 the measurement basis in financial statements and consistency of terminology with other IFRS's. (Effective 1 Jan 2009).

IAS 31 - *Interests in Joint Ventures*. This amendment deals with consequential amendments from changes to IFRS 3 - 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).

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.3 Standards, amendments and interpretations effective in current period but not relevant (continued)

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 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 amortisation. (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 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)

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 (Accounting Policies, Changes in Accounting Estimates and Errors) and investment property held under lease. (Effective 1 Jan 2009).

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

IFRIC 9 - *Reassessment of Embedded Derivatives*. This interpretation relates to the assessment for separation of embedded derivatives on the reclassification of a hybrid instrument out of the fair value through profit or loss category. (Effective for years ending on or after 30 Jun 2009)

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)

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

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 July 2009 and 1 January 2010 and are relevant to the Society's operations.

IAS 1 - *Presentation of Financial Statements*. The classification of the liability component of a convertible instrument as current or non-current is not affected by terms that could, at the option of the holder, result in settlement of the liability by the issue of equity instruments. (Effective 1 Jan 2010)

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 Society (continued)

IAS 7 – *Statement of Cash Flows*. This amendment clarifies that only expenditure that results in the recognition of an asset can be classified as a cash flow from investing activities. (Effective 1 Jan 2010)

IAS 17 – *Leases*. The amendment deletes guidance regarding the lease of land and also indicates that when a land and building is leased the economic life of land is normally indefinite. (Effective 1 Jan 2010)

The Trustees anticipate that all of the above will be adopted in the annual financial statements for the period commencing 1 January 2010 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 are not yet effective and not relevant for the Society's operations

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 July 2009 and 1 January 2010 but they are not relevant to the Society's operations:

IFRS 1 – *First Time Adoption of International Financial Reporting Standards*. This introduces an improved structure but no changes to the technical content. (Effective 1 Jul 2009)

IFRS 2 – *Share-based Payments Vesting Conditions and Cancellations*. This amendment indicates that business combinations as defined by IFRS 3 (Business Combinations) are outside the scope of IFRS 2 even if it is outside the scope of IFRS 3 (Effective 1 Jul 2009)

IFRS 3 – *Business Combinations*. 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 Jul 2009).

IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. These amendments requires that when an entity has committed to a sale plan that involves the loss of control of a subsidiary, all the assets and liabilities of the subsidiary will be disclosed as discontinued operations. The scope of the statement was also expanded to included distribution of non-cash assets to owners. (Effective 1 Jul 2009)

IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. This amendment clarifies that the required disclosure for non-current assets (or disposal group) to be classified as held for sale or discontinued operations are specified in IFRS 5 and not other IFRS's except if it specifically relates to the asset or the liability held for sale. (Effective 1 Jan 2010)

IFRS 8 – *Operating Segments*. Segment information with respect to total assets is required only if such information is regularly reported to the chief operating decision maker. (Effective 1 Jan 2010)

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 Jul 2009).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (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 Society's operations (continued)

IAS 38 – *Intangible Assets*. Intangible assets that is only separable together with a related contract, the identifiable asset or liability is recognised separately from goodwill together with the related item. The amendment also clarifies the description of valuation techniques commonly used to fair value intangible assets acquired in business combinations for which no active market exists. (Effective 1 Jul 2009)

IAS 39 – *Eligible Hedged Items*, This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flow is eligible for designation and the application in particular situations (Effective 1 Jul 2009)

IFRIC 9 – *Embedded Derivatives Amendments*. The scope of IFRIC 9 was amended so that embedded derivatives in contracts acquired in business combinations (IFRS 3 (2008)) remain outside. (Effective 1 Jul 2009)

IFRIC 16 – *Hedges of a Net Investment in a Foreign Operation*. The restrictions that prevented a hedging instrument being held by a foreign operation and that operation it self being hedged, is removed. (Effective 1 Jul 2009)

IFRIC 17 – *Distribution of non-cash Assets to Owners*. Distribution of this nature is measured at fair value of the asset. Any gain or loss on settlement of the liability for the dividend payable is recognised in profit and loss. (Effective 1 Jul 2009)

IFRIC 18 – *Transfer of Assets from Customers*. This interpretation provide guidance with respect to accounting for receiving contributed property, plant and equipment (or cash to acquire it) from customers. (Effective 1 July 2009)

1.6 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 the assets' residual value. The estimated maximum useful lives are:

Property, plant, equipment

Computer equipment	2 – 5 years
Office equipment	5 – 10 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income. 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. PRINCIPAL ACCOUNTING POLICIES (continued)

1.7 Intangible assets

Computer software is 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income.

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 Society, 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 an appropriate portion of relevant overheads.

1.8 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.

1.9 Financial assets

The Society 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.9 Financial assets (continued)

(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 Statement of Financial Position date. These are classified as non-current assets. The Society's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position.

(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 Statement of Financial Position date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Society 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. The fair value of security held iro loans and receivables below its cost is considered 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 are accounted for in that financial year.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' are presented in the Statement of Comprehensive Income within 'investment income' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income as part of 'investment income' when the Society'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 accumulated funds. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in accumulated funds.

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

Interest on available for sale securities calculated using the effective interest method is recognised in the Statement of Comprehensive Income as part of 'investment income'. Dividends on available for sale equity instruments are recognised in the Statement of Comprehensive Income as part of 'investment income' when the Society'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 Society 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 Society assesses at each Statement of Financial Position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments are not reversed through the Statement of Comprehensive Income. Impairment testing of trade receivables is described in note 1.10.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.10 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 rate 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 Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the Statement of Comprehensive Income. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Income.

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.

1.11 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.

1.12 Trade payables

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

1.13 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 Statement of Financial Position 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.

1.14 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)

1.15 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 Statement of Comprehensive Income and the Statement of Financial Position 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.

Claims recoveries relating to a risk transfer arrangement are calculated as a percentage of the actual value of the costs incurred by the insurer.

1.16 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.

1.17 Relevant healthcare expenditure

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

1.18 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;
- 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.

1.19 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.

DE BEERS BENEFIT SOCIETY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.20 Related parties relationship

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

1.21 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 the 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.

1.22 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 Society 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.

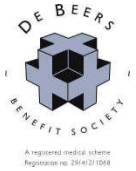
(b) Post retirement benefits

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 Statement of Comprehensive Income.

DE BEERS BENEFIT SOCIETY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)



2. PROPERTY, PLANT AND EQUIPMENT

	<u>Furniture, fittings and equipment</u>	<u>Computer equipment</u>	<u>Total</u>
	<u>R</u>	<u>R</u>	<u>R</u>
2009			
Cost	150 891	1 254 121	1 405 012
Opening balance	145 390	1 304 853	1 450 243
Additions	5 501	99 198	104 699
Disposals	-	(149 930)	(149 930)
Accumulated depreciation	(54 421)	(1 044 096)	(1 098 517)
Opening balance	(39 765)	(1 040 907)	(1 080 672)
Depreciation for the year	(14 656)	(153 116)	(167 772)
Disposals	-	149 927	149 927
Net book value	96 470	210 025	306 495
2008			
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
Net book value	105 625	263 946	369 571

Depreciation expenses of R167 772 (2008: R153 855) have been included in 'administration expenses'.

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)****3. INTANGIBLE ASSETS**

Software	<u>2009</u> R	<u>2008</u> R
Cost	143 730	140 168
Opening balance	140 168	1 651 873
Additions	3 562	13 024
Disposals	-	(1 524 729)
Accumulated depreciation	(130 671)	(128 007)
Opening balance	(128 007)	(1 651 864)
Depreciation for the year	(2 664)	(868)
Disposals	-	1 524 725
Net book value	<u>13 059</u>	<u>12 161</u>

Depreciation expenses of R2 664 (2008: R868) have been included in 'administration expenses'.

4. 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 financial position date. The linked insurance policies consist of the following asset classes:

Equities – Local	57 403 767	65 641 842
Equities – Foreign	3 278 163	4 903 451
Bonds and debentures	10 976 553	2 662 379
Domestic cash	122 136 270	106 157 475
	<u>193 794 753</u>	<u>179 365 147</u>

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

Beginning of the year	179 365 147	180 567 685
Invested	-	114 000 000
Realised gains	157 449	6 916 747
Unrealised gains	24 539 301	10 855 506
Interest received	888	5 839 266
Investment fees	(1 298 702)	(1 667 940)
Proceeds from disposals	(8 969 330)	(137 146 117)
End of the year	<u>193 794 753</u>	<u>179 365 147</u>

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

Changes in fair value of “other financial assets at fair value through profit or loss” are presented within the section on cashflow from operation before working capital changes in the Statement of Cash Flows (Note 18). Changes in fair value of “other financial assets at fair value through profit or loss” are recorded in investment income in the Statement of Comprehensive Income. (Note 15)

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 registered investment managers, without an external rating, with no defaults in the past. None of the assets that are fully performing has been renegotiated in the last year.

5. TRADE AND OTHER RECEIVABLES

	<u>2009</u> R	<u>2008</u> R
Recoveries from members for co-payments	2 759 702	3 387 421
Other receivables	5 199 109	8 398 433
Healthcare receivables	7 958 811	11 785 854
Net impairment losses on healthcare receivables	<u>(864 567)</u>	<u>(239 062)</u>
	7 094 244	11 546 792
Prepayments	212 768	111 312
Staff loans	9 405	4 275
	<u>7 316 417</u>	<u>11 662 379</u>

At 31 December 2009 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.

Analysis of healthcare receivables:

Fully performing	5 094 478	8 293 723
Past due but not impaired	1 999 766	3 253 069
Impaired and provided for	864 567	239 062
	<u>7 958 811</u>	<u>11 785 854</u>

Trade and other receivables that are less than 4 months past due are not considered impaired.

As at 31 December 2009, trade and other receivables of R1 999 766 (2008: R3 253 069) were past due but not impaired. The Society does not hold any collateral over these balances. The Society 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 providers for whom there is no history of default.

5. TRADE AND OTHER RECEIVABLES (continued)

The aging analysis of these trade receivables as at 31 December 2009 is as follows:

	<u>2009</u> R	<u>2008</u> R
Up to 4 months	280 259	1 545 317
Over 4 months	1 719 507	1 707 752
End of the year	<u>1 999 766</u>	<u>3 253 069</u>

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

Beginning of the year	239 062	91 128
Amount recognised in the Statement of Comprehensive Income	625 505	147 934
End of the year	<u>864 567</u>	<u>239 062</u>

The creation and release of provision for impaired healthcare receivables have been included in 'net impairment losses on healthcare receivables' in the Statement of Comprehensive Income (note 14).

In determining the recoverability of healthcare receivables the Society 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 provision for impairment 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 Society does not hold any collateral as security.

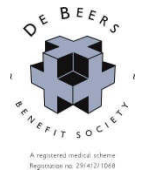
6. CASH AND CASH EQUIVALENTS

Short-term bank deposits

Beginning of the year	-	130 423 033
Interest received and accrued	-	115 373
Withdrawal	-	(130 538 406)
End of the year	<u>-</u>	<u>-</u>

Cash at bank and on hand

Current accounts	10 504 504	11 506 857
Cash on hand	100	3 900
	<u>10 504 604</u>	<u>11 510 757</u>

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)****6. CASH AND CASH EQUIVALENTS (continued)**

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Fixed interest and other money market instruments		
Beginning of the year	136 895 796	-
Invested	867 561	136 611 408
Realised (losses)/gains	(3 077 142)	5 943
Unrealised (losses)/gains	(101 734)	79 725
Interest received	16 677 849	3 406 430
Investment fees	(429 756)	(89 290)
Proceeds from disposals	(4 418 280)	(3 118 420)
End of the year	146 414 294	136 895 796
Cash and cash equivalents	156 918 898	148 406 553

Changes in the fair value of these financial assets are recorded in investment income in the Statement of Comprehensive Income. (Note 15) The credit quality of these financial assets is neither past due nor impaired. The counterparties are existing deposit taking institutions with an A or above credit rating and no defaults in the past.

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

7. POST RETIREMENT LIABILITYPost employment medical benefits

The method of accounting and valuation is similar to those for defined benefit schemes. The actuarial valuation to determine the liability is performed annually.

Movement in the post employment medical benefits obligation is as follows:

Beginning of the year	7 706 376	6 213 512
Expenses in respect of the current year	1 598 846	1 492 864
Benefits paid	(465 485)	(389 384)
Service cost	133 031	141 505
Intercompany transfers	180 158	39 454
Interest cost	620 584	535 644
Actuarial loss	1 130 558	1 165 645
End of the year	9 305 222	7 706 376

7. POST RETIREMENT LIABILITY (continued)

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
The methodologies used in this valuation remained unchanged from those used in the previous valuation:		
Gross discount rate	9.3%	8.5 %.
Pre-retirement mortality	Males: SA72-77; Females: SA72-77 rated down 3 years (same for 2008)	
Post-retirement mortality	Males: PA90 (base table); Females: PA90 (base table) (PFL 90 base table used in 2008)	
Continuation of membership at retirement	90%	90 %
Assumed rate of contribution increases	7.6%	5.9 %
Assumed net discounted rate	1.5%	2.0 %

The amounts recognised in the Statement of Comprehensive Income were as follows:

Post employment medical payments	453 676	179 539
Expenses in respect of the current year	1 598 846	1 492 864
Benefits paid	(465 485)	(389 384)
Service cost	133 031	141 505
Intercompany transfers	180 158	39 454
Interest cost	620 584	535 644
Actuarial loss	1 130 558	1 165 645
	<u>2 052 522</u>	<u>1 672 403</u>

Of the total charge R1 598 846 (2008: R1 492 864) was included in 'post retirement medical expenses' and R453 676 (2008: R179 539) in 'administration expenses'.

Pension benefits

All the employees of the Society are members of the De Beers Pension Fund. The Fund is a self-administered 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.

DE BEERS BENEFIT SOCIETY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)



8. TRADE AND OTHER PAYABLES

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Insurance liabilities		
Contributions received in advance	4 569 807	3 097 777
Reported claims not yet paid	839 980	-
Unallocated receipts and refunds to members	<u>1 555 749</u>	<u>1 677 227</u>
	<u>6 965 536</u>	<u>4 775 004</u>
Financial liabilities		
Leave provision	573 454	741 186
Sundry accounts payable	<u>1 566 813</u>	<u>5 262 197</u>
	<u>2 140 267</u>	<u>6 003 383</u>
	<u>9 105 803</u>	<u>10 778 387</u>

At 31 December 2009 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.

9. RISK TRANSFER ARRANGEMENT

Own claims incurred if no risk transfer arrangement was in place	1 282 886	1 102 308
Saving due to risk transfer arrangement	<u>(641 443)</u>	<u>(409 214)</u>
Expense incurred	<u>641 443</u>	<u>693 094</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.

The contract commencement date was 1 August 2004 and is reviewed annually. Either party can terminate the agreement by means of a 90 day written notification.

10. OUTSTANDING CLAIMS PROVISION

Beginning of the year	12 300 000	14 300 000
Payments in respect of prior year	<u>(11 895 941)</u>	<u>(14 422 637)</u>
Over/(under) provision in respect of prior year	404 059	(122 637)
Adjustment for current year (note 11)	<u>12 995 941</u>	<u>12 422 637</u>
End of the year	<u>13 400 000</u>	<u>12 300 000</u>

DE BEERS BENEFIT SOCIETY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

10. OUTSTANDING CLAIMS PROVISION (continued)

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 2009 using the Health Monitor Computer Model (the model). The model estimates claims incurred by service date based on the scheme's demographic profile and claims experience.

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

The Risk Monitor Group also provides on a monthly basis the outstanding claims provision for purposes of constructing the Society's management accounts.

The principles and assumptions used in estimating the claims incurred for the Society are as follows and are consistent with prior years:

o ***Membership***

The actual demographics of the scheme were used, incorporating all membership movements for the period January to December 2009. Membership is analysed on a beneficiary-level by option, age, gender, area and type of dependant and chronic status of the dependant.

o ***Calculation of provision***

The outstanding claims provision is calculated after considering the results of both the Health Monitor Computer Model and chain ladder techniques.

The Health Monitor Computer Model automatically incorporates the effect of ageing of the population on the utilisation of health services.

o ***Reasonability checks***

The reasonability of the provision has been assessed as follows:

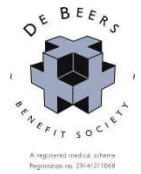
- Actual claims paid in 2010 for 2009, adjusted for inflation and the number of beneficiaries in the Society;
- Traditional "chain ladder" methods, using claims development patterns derived from 2008 and 2009; and
- An analysis of claims already paid in 2010 for 2009, at the time of signing the annual report.

Sensitivity of provision

The Society believes that the provision for outstanding claims, reported in the Statement of Financial Position, is adequate.

However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. The calculation of the claims provision has taken into account the claims already paid during January 2010 and February 2010 (2009: R12 424 361; 2008: R11 286 850).

If the actual claims settled for 2009 after February 2010 vary by 10% from the provision, the variance on the outstanding claims provision will be R97 940 (2008: R101 875) higher or lower, which represent 0.73% (2008: 0.83%) of the total provision.

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)****11. NET CLAIMS INCURRED**

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Claims incurred, excluding claims incurred in respect of risk transferred arrangement	214 506 766	202 155 178
Claims incurred in respect of risk transfer arrangement (note 9)	<u>1 282 886</u>	<u>1 102 308</u>
Total claims incurred	215 789 652	203 257 486
Discount received on claims	<u>(2 160 339)</u>	<u>(2 991 632)</u>
	213 629 313	200 265 854
Adjustment for outstanding claims provision (note 10)	<u>12 995 941</u>	<u>12 422 637</u>
Net claims incurred	<u><u>226 625 254</u></u>	<u><u>212 688 491</u></u>

12. MANAGED CARE

Case and Disease Management	660 481	575 585
Medical Advisor	<u>283 426</u>	<u>285 700</u>
	<u><u>943 907</u></u>	<u><u>861 285</u></u>

13. ADMINISTRATION EXPENSES

Actuary costs	421 384	379 620
Audit fees - Audit services	297 263	177 663
Audit fees - Internal audit	119 600	110 092
Bank charges	208 515	202 893
Building and maintenance	511 301	124 163
Computer expenses	355 689	697 259
Depreciation (note 2 and note 3)	170 436	154 723
Fidelity insurance	108 102	103 799
Medical administration system	3 254 215	3 237 486
Postage	132 415	259 427
Printing and stationery	115 448	67 946
Telephone	100 989	119 275
Trustees' expenses (note 20)	136 230	113 008
Staff costs	7 342 486	6 554 694
Other expenses	<u>1 424 739</u>	<u>947 986</u>
	<u><u>14 698 812</u></u>	<u><u>13 250 034</u></u>

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)****14. NET IMPAIRMENT LOSSES ON HEALTHCARE RECEIVABLES**

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Provision for impairment (note 5)	625 505	147 934
Written off as uncollectible	1 281	3 286
	<u>626 786</u>	<u>151 220</u>

15. INVESTMENT INCOME**Other financial assets at fair value through profit or loss**

Net realised gains	157 448	6 916 747
Net unrealised gains	24 539 301	10 855 506
Interest received	888	5 839 266

Cash and cash equivalents

Net realised (losses) / gains	(3 077 142)	5 943
Net unrealised (losses) / gains	(101 734)	79 725
Interest received	17 826 720	5 662 530

16. SUNDRY INCOME

DART administration fee	262 280	243 241
Bequest	212 928	-
(Loss)/Profit on disposal of property, plant and equipment	(3)	61 328
Proceeds on disposal	-	66 553
Net book value (note 2 & 3)	(3)	(5 225)
	<u>475 205</u>	<u>304 569</u>

17. DISPOSAL OF INVESTMENTS IN SUBSIDIARIES

Proceeds on disposal of investment in subsidiaries (note 19)	-	2 321 866
Net book value	-	(4 549 168)
Loss on disposal	-	(2 227 302)

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)****18. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES**

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Total comprehensive income for the year	17 559 200	6 885 272
Adjusted for:		
Loss on disposal of investments in subsidiaries (note 17)	-	2 227 302
Provision for impairment of healthcare receivables (note 14)	625 505	147 934
Provision for post retirement medical expenses (note 7)	1 598 846	1 492 864
Depreciation (note 2 & 3)	170 436	154 723
Loss/(profit) on disposal of property, plant and equipment (note 16)	3	(61 328)
Interest received (note 15)	(17 827 608)	(11 501 796)
Other financial assets at fair value through profit or loss	(24 696 749)	(17 772 253)
Realised gains (note 15)	(157 448)	(6 916 747)
Unrealised gains (note 15)	(24 539 301)	(10 855 506)
	<hr/>	<hr/>
Cash flows from operations before working capital changes	<u>(22 570 367)</u>	<u>(18 427 282)</u>

19. PROCEEDS ON DISPOSAL OF SUBSIDIARIES

On 31 December 2008 the Society disposed of the shares and loan accounts in its wholly owned subsidiaries, namely 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 three (3) year Designated Service Provider (DSP) agreement with Chronicare. Some of the directors of Chronicare are also 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 2009 were as follows:

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Property, plant and equipment	-	30 130
Trade and other receivables	-	383 354
Inventory	-	1 853 125
Deferred tax	-	660 528
	<hr/>	<hr/>
Net assets	-	2 927 137
Loss on disposal of subsidiaries	-	(605 271)
	<hr/>	<hr/>
Proceed on disposal	-	2 321 866

DE BEERS BENEFIT SOCIETY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)



20. RELATED PARTY TRANSACTIONS

	<u>2009</u>	<u>2008</u>
	<u>R</u>	<u>R</u>

Participating Employers

Statement of Comprehensive Income

Net contributions received	<u>223 639 867</u>	<u>209 545 260</u>
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The following Employers participate in the Society in terms of the rules:

- De Beers Group Services (Proprietary) Limited (Principal Employer)
- De Beers Consolidated Mines Limited,
- DTC South Africa
- DTC Valuations Namibia (Proprietary) Limited,
- De Beers Benefit Society,
- De Beers Marine (Proprietary) Limited,
- De Beers Namibia (Proprietary) Limited
- De Beers Marine Namibia (Proprietary) Limited,
- De Beers Pension Fund,
- Debswana Diamond Company (Proprietary) Limited,
- Namdeb Diamond Corporation (Proprietary) Limited,
- Petra Diamonds Limited; and
- Any other company, organisation or 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, which has nominated half the Board of Trustees, does not participate in the Society's financial and operating decisions

Investment managers and advisors

Statement of Comprehensive Income

Asset management and monitoring fees paid	<u>2 049 191</u>	<u>2 062 293</u>
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The following investment management companies have significant influence over the De Beers Benefit Society as they participate in the execution of their investment mandates in terms of the investment strategy, but do not control the De Beers Benefit Society:

- Alexander Forbes Financial Services – investment advisors
- Allan Gray – investment managers
- Investment Solutions – investment managers
- Taquanta Asset Managers – investment managers

Key management personnel and their close family members

Key management personnel are those persons having authority and responsibility for planning directing and controlling the activities of the Society. Key management personnel include the Board of Trustees, the Principal Officer and Manager.

Terms and conditions of related party transactions were as follows:

- Contributions: This constitute the contributions received from the related party as a member of the Society, in their individual capacity. All contributions were at the same terms as applicable to third parties.
- Claims: This constitute amounts claimed by the related parties, in their individual capacity as members of the scheme.
- Claims debt: This constitute the related party's co-payment for claims received that has not yet been deducted from either their salaries or pensions at year-end, in their individual capacity as members of the scheme. All claims debt was at the same terms as applicable to third parties.

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)****20. RELATED PARTY TRANSACTIONS (continued)****Key management personnel and close family members (continued)**

	<u>2009</u> R	<u>2008</u> R
<u>Statement of Comprehensive Income</u>		
Trustee remuneration and other considerations	136 230	113 008
Trustees contributions	373 800	254 112
Trustees claims	513 995	208 934
Key management remuneration	1 768 152	1 501 205
Key management contribution	84 420	72 360
Key management claims	64 363	52 774

Statement of Financial Position

Trustees claims debt	4 156	6 404
Key personnel claims debt	1 639	542

Breakdown of trustee remuneration and other considerations:

2009	Attendance fees R	Conference fees R	Travelling cost R	Total R
S E O Dietrich	-	-	10 168	10 168
R W Ketley	-	-	5 478	5 478
C W Coltman	-	-	4 473	4 473
W Smerdon	-	-	7 118	7 118
L A A Look	-	-	-	-
B R Bishop	16 660	-	15 133	31 793
K P Quinn	14 280	-	9 258	23 538
W Endersby	30 940	-	22 722	53 662
	<u>61 880</u>	<u>-</u>	<u>74 350</u>	<u>136 230</u>
2008				
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 Look	-	-	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
	<u>38 080</u>	<u>20 546</u>	<u>54 382</u>	<u>113 008</u>

20. RELATED PARTY TRANSACTIONS (continued)

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Loans to subsidiaries		
Beginning of the year	-	3 853 194
Loan advances	-	36 419 651
Loan repayments received	-	(35 723 880)
Disposal of subsidiaries	-	(4 548 965)
	<hr/>	<hr/>
End of the year	<hr/> <hr/>	<hr/> <hr/>

21. FINANCIAL RISK MANAGEMENT

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

Analysis of carrying amounts of financial assets and liabilities per category

The carrying amounts of financial assets and financial liabilities in the financial statements approximate their fair values.

	Financial assets at fair value through profit and loss R	Loans and Receivable R	Financial liabilities at amortised cost R	Insurance receivables and payables R	Total carrying amount R
2009					
Investments					
Equity investments	60 681 930	-	-	-	60 681 930
Bonds and Debentures	10 976 553	-	-	-	10 976 553
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	71 658 483	-	-	-	71 658 483
Cash and cash equivalent	122 136 270	156 918 898	-	-	279 055 168
Trade and other receivables	-	1 873 550	-	5 442 867	7 316 417
Trade and other payables	-	(2 140 267)	-	(7 606 979)	(9 747 246)
Long term liabilities	-	-	(9 305 222)	-	(9 305 222)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	193 794 753	156 652 181	(9 305 222)	(2 164 112)	338 977 600

21. FINANCIAL RISK MANAGEMENT (continued)

	Financial assets at fair value through profit and loss R	Loans and Receivable R	Financial liabilities at amortised cost R	Insurance receivables and payables R	Total carrying amount R
2008					
Investments					
Equity investment	70 545 293	-	-	-	70 545 293
Bonds and Debentures	2 662 379	-	-	-	2 662 379
	73 207 672	-	-	-	73 207 672
Cash and cash equivalent	106 157 475	148 406 553	-	-	254 564 028
Trade and other receivables	-	4 388 753	-	7 273 626	11 662 379
Trade and other payables	-	(6 003 383)	-	(5 468 098)	(11 471 481)
Long term liabilities	-	-	(7 706 376)	-	(7 706 376)
	179 365 147	146 791 923	(7 706 376)	1 805 528	320 256 222

Valuation techniques and assumptions applied

The fair value of financial assets and financial liabilities is determined as follow:

- o The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- o The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value hierarchy

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of inputs used to make the measurements.

Level 1 fair value measurement represents those assets which are measured using unadjusted quoted prices for identical assets. The predominance of market inputs is actively quoted and can be validated through external sources or reliably interpolated if less observable.

At 31 December 2009, investments classified as Level 1 comprise approximately 100% of financial assets measured at fair value on a recurring basis. Fair value measurements classified as Level 1 include exchange-traded prices of fixed maturities, equity securities and derivative contracts.

Unit-linked funds usually have a published price used for the previous day's transactions. Where the valuation of the liability is based on these observable unit prices with no significant unobservable inputs and there are sufficient transactions to meet the definition of a quoted price in an active market, it is classified as Level 1. If the insurer calculates the liability without reference to the published price, it will fall into Level 2 or 3. Where the valuation of the liability incorporates significant inputs influenced by management's assumptions this is likely to be a Level 3.

21. FINANCIAL RISK MANAGEMENT (continued)

Listed debt securities such as Government securities and Corporate bonds may be classified as Level 1 or 2 depending on trade and data availability.

At 31 December 2009 no investments were classified as Level 2 or Level 3.

For accounting policies regarding the determination of the fair values of financial assets and financial liabilities refer to note 1.9.

The following table presents the Society's assets measured at fair value at 31 December 2009:

	<u>2009</u> <u>R</u>	<u>2008</u> <u>R</u>
Other financial assets at fair value through profit loss		
Level 1	193 794 753	179 365 147
Level 2	-	-
Level 3	-	-
	<u>193 794 753</u>	<u>179 365 147</u>

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 the forecast of 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 under the auspices of the Audit and Risk Committee 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 working members' co-payments are endorsed by the principal employer and other associated employers. The amounts presented in the Statement of Financial Position are net of impairment losses on healthcare receivables, 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 counterparties are banks with high credit ratings and registered investment managers. The Society has no significant concentration of credit risk, with exposure spread over a number of counterparties. 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:

Healthcare Receivables	Fair value at 31 Dec R	Deteriorate by 1 % R	Deteriorate by 2 % R	Deteriorate by 5 % R	Deteriorate by 10 % R
2009	7 958 811	795 881	159 162	397 905	795 810
2008	11 785 854	117 858	235 717	589 293	1 178 585

Prepayments are excluded as the analysis is only required for financial instruments.

21. FINANCIAL RISK MANAGEMENT (continued)**Foreign investment risk**

Regulation 30, Annexure B, Category 4 (b) does not permit the Society to hold shares in territories outside the Republic. The Society however had an incident of contravention in 2009.

The Society received British American Tobacco (BTI) shares during October 2008 following the unbundling by local companies Remgro and Richemont of their respective interests. These shares are considered as "foreign shares" due to its status as an inward listed security on the JSE Securities Exchange by the South African Reserve Bank and the Council for Medical Schemes. The Society has received exemption from the Council of Medical Schemes until 28 October 2010 to ensure compliance.

These financial instruments are held within the linked insurance policies at fair value through profit or loss. The fair value of insurance policies is valued at the unit value in which the contractual benefits are denominated multiplied by the number of units at the Statement of Financial Position date.

The Society's risk on these foreign assets is limited to the market value at year end of R3 278 163 (2008: R4 903 451).

If foreign equity prices had been 5% higher or lower the total comprehensive income for the year would have increased/decreased by R163 908 (2008: R245 173) as a result of the change in the fair value of 'assets held at fair value through profit and loss'.

Interest rate risk

The table below summarises the Society's exposure to institutional risk for interest bearing investments at 31 December 2009.

Cash and Cash equivalents (note 6)	2009 R	2008 R
Nedbank	122 011	87 052
Standard Bank	10 382 593	11 423 705
Taquanta Asset Managers	146 414 294	136 895 796
Cash and Cash equivalents	156 918 898	148 406 553
Other assets held at fair value through profit and loss (note 4)		
Taquanta Asset Managers (Absolute Return)	-	21 298
Allan Gray	84 394 529	68 418 816
Investment Solutions	37 741 741	37 717 361
Total Cash and Cash equivalent exposure	279 055 168	254 564 028

The majority of the cash and cash equivalents are invested by the investment managers with the five (5) major banks with A ratings and above.

If the interest rates had been one (1) basis point higher/lower and all other variables were held constant the Society's total comprehensive income for the year would increase/decrease by R2 790 552 (2008: R2 545 640).

This is mainly due to the Society's exposure to interest rates on investments held in fixed interest and other money market instruments.

21. FINANCIAL RISK MANAGEMENT (continued)

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 the statutory requirements.

The market value of investments will fluctuate because of changes in market prices. Changes in market value are recognised in the Statement of Comprehensive Income.

The linked insurance policies are fully performing. The assets underlying the linked insurance policies are exposed to the equity and bond market. The majority of assets, 63% (2008: 59%) of linked insurance policies, were invested in cash and other money market instruments.

Equities and bonds are equitably allocated to all sectors of the market.

Credit and counter party risk analysis as at 31 December 2009:

<u>2009</u>	Assets held at fair value through profit and loss R	Cash and cash equivalents R	Total R	%
Banks				
Nedbank	-	122 011	122 011	0.1
Standard Bank	-	10 382 593	10 382 593	3.0
Asset Managers – Local				
Taquanta Asset Managers	-	146 414 294	146 414 294	41.7
Allan Gray	124 162 481	-	124 162 481	35.4
- Equity – Domestic	37 026 653	-	37 026 653	
- Equity – Foreign	2 741 299	-	2 741 299	
- Domestic Cash	84 394 529	-	84 394 529	
Investment Solutions	69 632 272	-	69 632 272	19.8
- Equity – Domestic	20 377 114	-	20 377 114	
- Equity – Foreign	536 864	-	536 864	
- Bonds & Debentures	10 976 553	-	10 976 553	
- Domestic Cash	37 741 741	-	37 741 741	
	193 794 753	156 918 898	350 713 651	100

21. FINANCIAL RISK MANAGEMENT (continued)

Investment market risk (continued)

<u>2008</u>	Assets held at fair value through profit and loss R	Cash and cash equivalents R	Total R	%
Banks				
Nedbank	-	87 052	87 052	0.1
Standard Bank	-	11 423 705	11 423 705	3.4
Asset Managers – Local				
Taquanta Asset Managers	924 746	136 895 796	137 820 542	42.0
- Equity – Foreign	903 448	-	903 448	
- Domestic Cash	21 298	136 895 796	136 917 094	
Allan Gray	113 980 897	-	113 980 897	34.8
- Equity – Domestic	42 041 114	-	42 041 114	
- Equity – Foreign	3 520 967	-	3 520 967	
- Domestic Cash	68 418 816	-	68 418 816	
Investment Solutions	64 459 504	-	64 459 504	19.7
- Equity – Domestic	23 600 728	-	23 600 728	
- Equity – Foreign	479 036	-	479 036	
- Bonds & Debentures	2 662 379	-	2 662 379	
- Domestic Cash	37 717 361	-	37 717 361	
	179 365 147	148 406 553	327 771 700	100

If the domestic equity prices had been 5% higher/lower the total comprehensive income for the year would have increased/ decreased by R2 870 189 (2008: R3 282 092) as a result of the change in the fair value of 'assets held at fair value through profit and loss'.

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 the 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.

21. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Forecasted liquidity reserve as at 31 December is as follows:

	Forecast	
	+1 year R	+2-5 years R
Opening balance	325 897 154	326 283 154
Gross underwriting result	(5 643 000)	(22 572 000)
Administration expenses	(15 471 000)	(61 884 000)
Investment income	21 500 000	86 000 000
Closing balance	<u>326 283 154</u>	<u>327 827 154</u>

22. 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. This risk relates 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 Board of Trustees annually reviews the level of insurance exposure taking into account the requirements of the Medical Schemes Act, and structures the benefits provided to members to fall within the acceptable insurance risk levels.

The Board of Trustees is also responsible for recommending whether or not the scheme should enter into any risk transfer arrangements or commercial reinsurance contracts. Feedback is provided by management to the Board of Trustees on the effectiveness and the efficiency of risk transfer arrangements and commercial reinsurance contracts entered into by the scheme.

The Society manages its insurance risk through benefit limits and sub-limits, pricing guidelines, pre-authorization and case management, and monitoring of emerging issues.

Certain risks are mitigated by entering into risk transfer arrangements. In this regard the scheme has specifically decided to transfer all ambulance services to an external service provider.

Several methods are used by the Society to assess and monitor insurance risk exposure for individual risk types as well as overall risks.

The scheme analyses the distribution of claims per claim category, provider category and member age bands.

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. 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 year may vary from those estimated with established statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and extend of risk, geographical location and demographics of members covered.

22. INSURANCE RISK MANAGEMENT (continued)

The following table summarises the concentration of insurance risk with reference to the carrying amount of the insurance claims incurred by age group and in relation to the type of risk covered/benefits provided.

Age group	General Practitioners R	Specialists R	Dentistry R	Medicines R	Hospitals R	Auxiliary & Support Services R	Total R
2009							
<19	3 129 827	4 465 567	1 986 553	3 820 926	8 835 069	1 979 845	24 217 787
20-34	2 478 864	4 831 893	1 391 539	3 815 104	8 249 248	2 096 675	22 863 323
35-49	3 045 226	8 467 974	2 503 667	8 918 502	11 561 560	3 957 363	38 454 292
50-64	3 999 277	16 716 304	2 939 076	22 886 384	26 678 363	5 925 084	79 144 488
65>	2 234 355	12 865 127	1 120 477	15 998 457	25 414 565	4 312 383	61 945 364
Total	14 887 549	47 346 865	9 941 312	55 439 373	80 738 805	18 271 350	226 625 254
2008							
<19	3 238 742	4 877 101	2 397 821	3 967 041	9 541 757	2 224 273	26 246 735
20-34	2 475 445	5 051 698	1 489 000	3 668 553	7 573 310	2 648 330	22 906 336
35-49	3 397 458	9 375 556	2 722 890	9 276 491	13 683 472	4 370 591	42 826 458
50-64	3 496 089	13 942 983	2 636 343	18 671 046	23 173 195	6 512 258	68 431 914
65>	1 760 782	10 987 550	948 097	13 899 479	20 764 939	3 916 201	52 277 048
Total	14 368 516	44 234 888	10 194 151	49 482 610	74 736 673	19 671 653	212 688 491

If the claims experience vary by 1% the benefits provided would have been higher or lower by R2 266 253 (2008: R2 126 885).

General Practitioner benefits cover the cost of all visits by members to general practitioners and procedures performed by them.

Specialist benefits cover the costs of all visits by member to specialists and of procedures, in – and out-of-hospital, performed by them. This also includes radiology and pathology benefits provided to members.

Dentistry benefits cover the costs of all visits by members to dental practitioners and the procedures performed by them.

Medicine benefits cover the costs of all medicines (chronic, acute and over the counter) medicines obtained by members.

Hospital benefits include the hospitalisation costs incurred by members while they are in the hospital to receive pre-authorised treatment for medical conditions.

Auxiliary and Support services benefits includes the costs incurred by member on treatments and services (e.g. optometry, homeopathic, frail care) provided by the medical industry in terms of their benefits which cannot be classified in the above categories and are not material enough to form their own category.

22. INSURANCE RISK MANAGEMENT (continued)

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. The risk transfer arrangement with ER 24 reduced the hospital claims by R641 443 (2008: R409 215).

All contracts are annual in nature and the Society has the right to change the terms and conditions of the contract renewal.

Management information includes contribution income and claims analysis per detail benefit categories and demographic split and is reviewed on a quarterly basis.

Sensitivity of the Scheme's financial position

According to the Medical Schemes Act, the reserve levels of medical schemes must at least be at 25% of the gross contributions. The calculated solvency for 2010 is based on a number of assumptions, including price increases, utilisation and membership levels. The following sections illustrate the sensitivity of the 2010 solvency projection to certain assumptions.

Price increases

The final RPL and other reference price increases were not available at the time of determining the pricing for 2010. Any changes in the price increases in excess or below the expected price increase will only impact on the claims expenditure for 2010, and therefore the projected solvency ratio. The table below sets out the solvency ratio of different possible scenarios regarding price increases.

Assumptions	2010		2009	
	Solvency ratio	Difference	Solvency ratio	Difference
Average expected price increase of 8% (2009: 11%)	126.2%		117.2%	
<i>Average price increase of 2% less than expected</i>	128.1%	1.9%	118.9%	1.7%
<i>Average price increase of 1% less than expected</i>	127.1%	0.9%	118.1%	0.9%
<i>Average price increase of 1% more than expected</i>	125.2%	(1.0%)	116.3%	(0.9%)
<i>Average price increase of 2% more than expected</i>	124.2%	(2.0%)	115.4%	(1.8%)

Change in benefit utilisation

This assumption is particularly uncertain relative to the other assumptions used due to it encapsulating the impact of yet unknown factors (e.g. introduction of new technologies and drugs). If the actual increase in benefit utilisation is different to the assumed, then the claims expenditure for 2010 will differ. The table below sets out the solvency ratio of different possible scenarios.

Assumptions	2010		2009	
	Solvency ratio	Difference	Solvency ratio	Difference
Average expected utilisation increase of 2% (2009: 1.5%)	126.2%		117.2%	
<i>Average utilisation increase of 2% (2009: 1.5%) less than expected</i>	128.3%	2.1%	118.5%	1.3%
<i>Average utilisation increase of 1% less than expected</i>	127.2%	1.0%	118.0%	0.8%
<i>Average utilisation increase of 1% more than expected</i>	125.1%	(1.1%)	116.0%	(1.2%)
<i>Average utilisation increase of 2% (2009: 1.5%) more than expected</i>	124.0%	(2.2%)	115.5%	(1.7%)

22. INSURANCE RISK MANAGEMENT (continued)

Ageing of membership

In general, the benefit utilisation of members increases with age. If the actual increase in average age is different to the assumed, the expected claims expenditure for 2010 will differ. The table below sets out the solvency ratio of different possible scenarios.

Assumptions	2010		2009	
	Solvency ratio	Difference	Solvency ratio	Difference
Average age of 40.7 (2009: 38.4) assumed in the pricing exercise	126.2%		117.2%	
<i>Average age of members decrease by 2 years</i>	131.6%	5.4%	122.4%	5.2%
<i>Average age of members decrease by 1 years</i>	128.4%	2.2%	119.4%	2.2%
<i>Average age of members increase by 1 years</i>	124.6%	(1.6%)	115.0%	(2.2%)
<i>Average age of members increase by 2 years</i>	123.0%	(3.2%)	112.8%	(4.4%)

Claims experience

Claims experience may vary due to inflation, utilisation and/or average age changes, as indicated above, but also include other factors such as severity or random variation. As the Society's risk profile for 2010 is uncertain, given all the changes and risks it faces, the claims experience could be quite different to that expected. The table below sets out the solvency ratio of different possible scenarios.

Assumptions	2010		2009	
	Solvency ratio	Difference	Solvency ratio	Difference
Claims experience of R2 913 (2009: R2 414) per principal member per month assumed in the pricing exercise	126.2%		117.2%	
<i>Claims experience 8% lower than expected</i>	134.5%	8.3%	124.9%	7.7%
<i>Claims experience 4% lower than expected</i>	130.3%	4.1%	121.0%	3.8%
<i>Claims experience 4% higher than expected</i>	122.0%	(4.2%)	113.0%	(4.2%)
<i>Claims experience 8% higher than expected</i>	117.8%	(8.4%)	109.0%	(8.2%)

Membership level changes

The Society's solvency level is very sensitive to any change in membership levels, due to the fact that the definition of solvency is the value of the Society's reserves divided by contribution income. Therefore any increase in contribution income, as a result of increase in membership, would reduce the solvency level even though the value of the Society's reserves remains unchanged. The table below sets out the solvency ratio of different possible scenarios.

22. INSURANCE RISK MANAGEMENT (continued)

Membership level changes (continued)

Assumptions	2010		2009	
	Solvency ratio	Difference	Solvency ratio	Difference
Total membership of 82 596 (2009: 100 908) principal members per month assumed	126.2%		117.2%	
<i>Membership 10% lower than assumed</i>	140.7%	14.5%	129.9%	12.7%
<i>Membership 5% lower than assumed</i>	133.0%	6.8%	123.1%	5.9%
<i>Membership 5% higher than assumed</i>	119.9%	(6.3%)	111.5%	(5.7%)
<i>Membership 10% higher than assumed</i>	114.3%	(11.9%)	106.4%	(10.8%)

Contributions

The average contribution received per month depends on the average family size and the distribution between the different income categories of the Society's members. Change in the membership levels could also have an effect on the average contribution received per member per month. If it is lower than assumed, the Society will receive less funding than anticipated and vice versa. However, it should be kept in mind that the solvency is calculated by dividing the Society's reserves by the contribution income and therefore, any decrease in contribution will increase the solvency ratio. The table below sets out the solvency ratio of different possible scenarios.

Assumptions	2010		2009	
	Solvency ratio	Difference	Solvency ratio	Difference
Contribution income of R2 783 (2009: R2 432) per principal member per month assumed	126.2%		117.2%	
<i>Contribution income 4% lower than assumed</i>	127.3%	1.1%	117.7%	0.5%
<i>Contribution income 2% lower than assumed</i>	126.7%	0.5%	117.3%	0.1%
<i>Contribution income 2% higher than assumed</i>	125.6%	(0.6%)	116.7%	(0.5%)
<i>Contribution income 4% higher than assumed</i>	125.2%	(1.0%)	116.3%	(0.9%)

23. 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:

- o A major part of the surplus assets/funds is invested in portfolios that target inflation plus 3%, after fees;
- o 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
- o 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%.

DE BEERS BENEFIT SOCIETY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)

23. CAPITAL MANAGEMENT (continued)

The solvency ratio of the Society at end December 2009 was 129% (2008: 141%) This ratio can be expressed as 15.5 months cover (2008: 16.9 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.

24. EVENTS AFTER STATEMENT OF FINANCIAL POSITION 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.

25. 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 7) and outstanding claims provision (see note 10), that have a significant effect on the amounts recognised in the annual financial statements.

26. NON-COMPLIANCE

The following instances of non-compliance with the Act were identified during the course of the financial year:

Foreign share holding

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 received British American Tobacco (BTI) shares during October 2008 following the unbundling by local companies Remgro and Richemont of their respective interests. These shares are considered as "foreign shares" due to its status as an inward listed security on the JSE Securities Exchange by the South African Reserve Bank and the Council for Medical Schemes. The Society has received exemption from the Council of Medical Schemes until 28 October 2010 to ensure compliance.

As at 31 December 2009 the market value of the foreign share holding amounted to R3 278 163 (2008: R4 903 451).

Late receipt of contributions

Contravention of section 26(7). Contributions from the following employer groups were received later than three days after it became due in terms of the Society's rules:

- o Cullinan Diamond Mine (Petra)
- o Botswana Ash
- o Namdeb
- o Debswana
- o Kimberley Engineering Works

These employer groups were informed of non-compliance and requested to ensure future adherence. No contributions were received later than 8 days after the due date.

DE BEERS BENEFIT SOCIETY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009 (continued)



26. NON-COMPLIANCE (continued)

Society generated a net healthcare deficit

Contravention of Section 33(2). In terms of Section 33(2) the Society 'shall be self-supporting in terms of membership and financial performance'. During the year the Society made a net healthcare deficit of R20 212 296 (2008: R18 489 419).

The Society's financial position at year end and results for the year is sound. This is confirmed by the exceptional solvency rate of 129% (2008: 141%) which exceeds the prescribed solvency ratio of 25%. It is not the intention of the Society to make a profit and therefore the investment income enables the Society to target a breakeven position after taking into account the investment income to ameliorate the net healthcare deficit.

The trustees monitor the actual results to ensure the net healthcare deficit is in line with the budgeted net healthcare deficit and any material variances are explained and corrective action taken when necessary.