

DE BEERS BENEFIT SOCIETY

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

ANNUAL REPORT

31 DECEMBER 2010



A registered medical scheme
Registration no. 1068

DE BEERS BENEFIT SOCIETY



ANNUAL REPORT 2010 GENERAL INFORMATION

Board of Trustees in office during the year under review

Trustees appointed by De Beers Group Services (Proprietary) Limited

Chairman	C J Blanckenberg (<i>Appointed 21 September 2010 as trustee</i>) (<i>Elected 21 September 2010 as Chairman</i>)
	S E O Dietrich (<i>Appointed 27 January 2006 as trustee</i>) (<i>Appointed 20 March 2008 as Chairman</i>) (<i>Resigned 21 September 2010 as Chairman and trustee</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 Looock (*Appointed 25 September 2007 / Term expired 13 May 2010*)
K P Quinn (*Appointed 25 April 2007 / Term expired 13 May 2010*)
H G Gastrow (*Appointed 14 May 2010*)
P J Bartlett (*Appointed 14 May 2010*)

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
Accreditation number: 57

Country of incorporation

The Society is incorporated in the Republic of South Africa.

Investment advisors during the year

J Anderson and N Desai
Alexander Forbes Financial Services (Proprietary) Limited (Reg. No 1953/001254/07)
Financial services provider number: 1177

61 Katherine Street
Sandton
2146

P O Box 787240
Sandton
2146

DE BEERS BENEFIT SOCIETY



ANNUAL REPORT 2010 GENERAL INFORMATION

Investment Managers

Allan Gray Life Limited (Reg. No. 1992/006778/06)
Financial services provider number: 6663

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

P O Box 51605
Cape Town
8001

Investment Solutions Limited (Reg. No. 1997/000595/06)
Financial services provider number: 711
(Contract terminated with effect 30 June 2010)

Investment Solutions Office Park
63 Wierda Road East
Wierda Valley
2196

P O Box 786055
Sandton
2146

Taquanta Asset Managers (Proprietary) Limited (Reg. No. 1999/021871/07)
Financial services provider number: 618

7th Floor
Newlands Terraces
Boundary Road
Newlands
7700

P O Box 23450
Claremont
7735

Prescient Investment Management (Proprietary) Limited (Reg. No 1998/023640/07)
Financial services provider number: 612
(Appointed from 1 July 2010)

Prescient House
Westlake Office Park
Otto Close
Westlake
7945

P O Box 31142
Tokai
7966

Actuaries

The Health Monitor Company

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

Private Bag X17
Halfway House
1685

Auditors

PricewaterhouseCoopers Incorporated

2 Eglin Road
Sunninghill
2157

Private Bag X36
Sunninghill
2157

DE BEERS BENEFIT SOCIETY



ANNUAL REPORT 2010

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DE BEERS BENEFIT SOCIETY



NOTICE TO MEMBERS

NOTICE IS HEREBY GIVEN THAT THE 122nd ANNUAL GENERAL MEETING OF THE DE BEERS BENEFIT SOCIETY WILL BE HELD IN THE DE BEERS CONSOLIDATED MINES BOARDROOM, 36 STOCKDALE STREET, KIMBERLEY ON 17 MAY 2011 AT 12H00:

The purpose of this meeting will be:

1. To approve the minutes of the 121st Annual General Meeting held on 13 May 2010.
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 2010.
3. To consider the appointment of auditors for the year ending 31 December 2011.
4. In terms of Rule 18.18 to approve the honorarium payable per meeting attended to non-employee member-elected Trustees to be increased aligned to the De Beers Pension Fund annual pension increase of 7%:
 - From R2 730 to R2 921 from 1 January 2011.

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 16 May 2011.

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

24 March 2011

84 Du Toitspan Road
KIMBERLEY
8301

The Board of Trustees has pleasure in submitting its one hundred and twenty second annual report for the year ended 31 December 2010.

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 R732 503 (2009: R641 443) 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 611 226 (2009: R1 282 886).

2. Financial results for the year under review

The Society reflected a total comprehensive income for the year of R26 095 872 (2009: R17 559 200) after incorporating investment income. The increase in the total comprehensive income for the year is mainly due to the reduced healthcare expenditure relating to medicine and hospital benefits. This is attributed to the introduction of the use of Generic Reference Pricing (GRP), the more favourable Designated Service Provider (DSP) agreement for the supply of chronic medicines entered into with Clicks directmedicine (CDM) during the year and the impact of hospital pre-authorisation protocols enforcing admission to preferred network hospitals. This has resulted in the ratio of relevant healthcare expenditure to net contributions improving to 96% (2009: 101%)

The Society has experienced a further decline in the membership in 2010 with a concomitant increase in the average age of the Society's membership, the pensioner ratio and chronic status. Despite this, the Society was still able to contain healthcare expenditure for the year.

The Society's accumulated funds have grown to R351 993 026 (2009: R325 897 154). The solvency ratio of the Society as at 31 December 2010 was 139% (2009: 129%). This ratio can be expressed as 16.7 months cover (2009: 15.5), 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 maintaining the current level of accumulated funds is a prudent measure to help ensure the financial stability and viability of the Society in a rapidly changing South African healthcare environment and in view of the increasing average age of the membership.

In light of recent corporate actions by De Beers, the sustainability of the Society is carefully considered and managed by the Board of Trustees on an ongoing basis. The Board continues to subject the Society to regular actuarial modelling and oversight aimed at monitoring and taking steps, inter alia, to counter the demographic changes within the membership of the Society as well as claiming trends which may impact on the Society's competitiveness and sustainability. From this process flows the introduction of initiatives such as Generic Reference Pricing, the ongoing review of and engagement with service providers and improved benefit utilisation management. The Society's investment strategy has proven to be successful, as evidenced by its current level of reserves. Benefits, contribution levels and administration costs remain competitive, and in some cases better than the industry average. Based on this, the Board is of the opinion that the Society offers good value for money to its members and will remain sustainable as a self-administered restricted scheme for the foreseeable future.

Of total benefits paid in 2010, Hospitals comprised 36% (2009: 36%), Medicines 23% (2009: 24%), Specialists 22% (2009: 21%), General Practitioners 6% (2009: 7%), Dentists and Dental Specialists 4% (2009: 4%) and other benefit types 9% (2009: 8%).

REPORT OF THE BOARD OF TRUSTEES (continued)

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 formulation 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 investment objectives of the Society are as follows:

- Capital preservation is of paramount importance;
- Liabilities are measured and forecasted using medical inflation (CPI plus 2% - 3%) and investment returns therefore need to target inflation plus 3%, and
- Predictability of income is a key requirement, to remain liquid and to meet commitments as and when they fall due.

The investment policy is reviewed annually, taking into consideration compliance with the Act as well as the risk and the returns produced by the various investment instruments and investment managers. As a consequence, the real return focus mandate managed by Investment Solutions was changed in July 2010 to a domestic absolute return mandate managed by Prescient Investment Management. The investment style of this manager is more suited to the new mandate which compliments that of the other investment managers and provides greater capital preservation.

The Society invested mainly in linked insurance policies, collective investment schemes and cash instruments during 2010. Kindly refer to notes 4 and 6 (pages 31 and 33) 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 by members and their dependants that are directly subject to risk. The risk relates to the health of the Society members and their dependants. 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-authorisation and case management, management of the risk transfer arrangements, preferred provider arrangements, by monitoring emerging healthcare issues and taking corrective action as required.

The Society, with the assistance of the Health Monitor Company, assess and monitor insurance risk exposures both for individual types of risks insured and overall risks. This assessment includes internal risk measurement models, sensitivity and scenario analyses. The principal risk is that the frequency and severity of claims are greater than assumed at the time of compiling the annual budget.

Insurance events are, by their nature, random and the actual number and size of events during any one year may vary from those estimated. This estimation utilises established statistical techniques and claiming patterns. 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.

Kindly refer to note 21 (page 50) of the annual financial statements for more detail.

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.

REPORT OF THE BOARD OF TRUSTEES (continued)

5. Corporate governance (continued)

The Society undertook a governance review during 2010, which incorporated the draft guidelines for governance for medical schemes issued by the Council for Medical Schemes and relevant components of the governance best practices prescribed for the retirement fund industry (circular PF130). Good corporate governance requires continuous review for relevance, effectiveness and compliance of processes, systems and documents. To that end the Society focuses on continuous business improvement throughout the year. The Society has commenced a process of reviewing its full set of Rules, in consultation with the Society's legal advisors.

The employees of the Society are continuously encouraged to be mindful of managing risk and to report any instances of suspected fraud and money laundering.

During the year under review the Council for Medical Schemes performed an evaluation of the Society's compliance with administration standards as determined by the Council. This evaluation proved to be extensive and detailed in its nature and was performed with comprehensive insight into and understanding of all aspects of medical aid administration and finances. On 9 December 2010 the Council of Medical Schemes issued a compliance certificate subject to certain conditions. Steps are being taken to resolve these conditions within the indicated timeline.

6. Review of the accounting period's activities

6.1 Operational statistics

Membership	2010		2009	
	Members	Beneficiaries	Members	Beneficiaries
Membership at 1 January	7 092	15 980	8 081	18 954
New members	182	545	256	705
Members exited	(777)	(2 086)	(1 245)	(3 679)
Membership at 31 December	6 497	14 439	7 092	15 980
Average number of members / beneficiaries	6 854	15 257	7 421	16 970
Average age of beneficiaries		41		40
Dependant ratio at 31 December	1 :1.22		1 :1.25	
Pensioner ratio at 31 December		17%		14%
Ratios per average member / beneficiary per month				
Net contribution income	2 760	1 240	2 511	1 098
Relevant healthcare expenditure	2 644	1 188	2 538	1 110
Non-healthcare expenditure	187	84	201	88
	2010		2009	
	%		%	
Relevant healthcare expenditure as % of net contributions	95.8		101.0	
Non-healthcare expenditure as % of net contributions	6.8		8.0	
Return on investments	9.8		12.2	

REPORT OF THE BOARD OF TRUSTEES (continued)**6. Review of the accounting period's activities (continued)****6.2 Solvency ratio**

	2010	2009
	R	R
Accumulated funds per Statement of Financial Position	351 993 026	325 897 154
<u>Less: Unrealised gains</u>	<u>(35 536 923)</u>	<u>(37 126 614)</u>
Accumulated funds per Regulation 29	<u><u>316 456 103</u></u>	<u><u>288 770 540</u></u>
Net contributions	227 018 795	223 639 867
Solvency ratio	139%	129%
Accumulated funds per member at 31 December	R48 708	R40 718

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 financial stability and viability of the Society in a rapidly changing South African healthcare environment and in view of the increasing average age of the membership.

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 Society.

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 and to conduct actuarial modelling. The actuary used the same principles and assumptions in calculating the outstanding claims provision and the Society's post employment medical benefits liability as in prior years.

The Society's actuary was consulted during September 2010 for forecasting and the determination of the contribution and benefit levels for the 2011 benefit year.

DE BEERS BENEFIT SOCIETY

REPORT OF THE BOARD OF TRUSTEES (continued)



8. Auditors

In terms of Rule 25.1, the members appointed PricewaterhouseCoopers Incorporated as the Society's auditors for 2010.

9. Participating employers

During 2010 a low cost medical scheme was introduced by De Beers Consolidated Mines (DBCM) for all employees who are members of the National Union of Mineworkers (NUM). NUM members who were members of the Society were given a once off option to move to the alternate scheme. Only 23% of the eligible members elected to transfer.

10. Events after statement of financial position date

On 21 January 2011 De Beers Consolidated Mines (DBCM) announced the sale of Finsch Mine. All the working members (367 members at 31 December 2010) will join the medical scheme of the purchaser in terms of the sale agreement. Current pensioner members associated with Finsch Mine will remain members of the Society. Discussions aimed at negating the impact of the loss of the cross subsidy associated with the membership termination of the Finsch Mine working members, to the Society, have commenced with DBCM.

The Board is of the opinion that this event will not influence the ability of the Society to remain a going concern. Refer note 23 (page 54)

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 19 (page 42) to the annual financial statements. Trustee remuneration is disclosed in the same note.

13. Board Committees

13.1 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 and 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 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 Auditor attend all Audit and Risk Committee meetings and have unrestricted access to the chairman of the committee.

REPORT OF THE BOARD OF TRUSTEES (continued)

13. Board Committees (continued)

13.1 Audit and Risk Committee (continued)

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

13.2 Investment Committee

An Investment Committee continued to function during the year under review as mandated by the Board of Trustees by means of written terms of reference as to its membership, authority and duties. This committee consists of four members. All the members, including the chairman are not officers of the Society. The committee met on five occasions during the year.

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, albeit not members of the committee, attend all investment committee meetings and have unrestricted access to the chairman of the committee.

The Investment Committee conducted due diligence visits to all the investment managers during the year. An annual investment day was also held where the investment managers had the opportunity to interact and present to the Board of Trustees on investment performance and related matters.

The committee for the year under review comprised:

- C J Blanckenberg (Chairman – *appointed 21 September 2010*)
- S E O Dietrich (Chairman – *resigned 21 September 2010*)
- R W Ketley
- W Endersby
- C W Coltman

13.3 Benefits Review Committee

During the year under review the Benefits Review Committee was formalised 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 three members from the Board of Trustees. The committee met once during the year. The Actuary, Principal Officer and the Manager also attended this meeting.

The primary responsibility of the committee is to review the appropriateness of the benefit structure the Society provides to its members and to make recommendations to the Board of Trustees regarding any changes that may be required.

The committee for the year under review comprised:

- C J Blanckenberg (Chairman – *Appointed 21 September 2010*)
- S E O Dietrich (Chairman – *Resigned 21 September 2010*)
- W Smerdon
- P J Bartlett

REPORT OF THE BOARD OF TRUSTEES (continued)

13. Board Committees (continued)

13.4 Remuneration Committee

During the year under review the Remuneration 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 appointed by the Board of Trustees. Three of the members, including the Chairman, must be Board members. The fourth member may or may not be a trustee with human resource and remuneration management experience. The committee met four times during the year. The Principal Officer also attended the meetings.

The primary responsibility of the committee is to determine the conditions of employment and remuneration for all employees of the Society.

The committee for the year under review comprised:

- C J Blanckenberg (Chairman and Trustee – *Appointed 21 September 2010*)
- S E O Dietrich (Chairman and Trustee – *Resigned 21 September 2010*)
- W Smerdon (Trustee)
- R W Ketley (Trustee)
- C W Coltman (Trustee - *Appointed 9 December 2010*)
- R Mathabathe (*Resigned 9 December 2010*)

13.5 Communication and Education Committee

During the year under review the Communication and Education 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 three members appointed from among the Board of Trustees including the Chairman or any other person deemed fit for this purpose. The committee met formally once during the year. The Principal Officer also attended the meeting.

The primary responsibility of the committee is to oversee communication to members and the education of the trustees.

The committee for the year under review comprised:

- R W Ketley (Chairman)
- C J Blanckenberg (*Appointed 21 September 2010*)
- S E O Dietrich (*Resigned 21 September 2010*)
- W Endersby

14. Meeting Attendance

The following schedule sets out Board of Trustee and Board committee meeting attendance. Trustee remuneration is disclosed in note 19 (page 42) to the annual financial statements.

Trustee / committee member	Board		Audit & Risk		Investment		Benefit review		Remuneration		Communication & Education		Ad-hoc	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Trustees - Employer appointed														
C J Blanckenberg	2	2			1	1			1	1				
S E O Dietrich	3	3			3	4	1	1	3	3	1	1	5	7
R W Ketley	3	4	1	2	5	5			4	4	1	1	5	7
C W Coltman	4	4			3	5								
W Smerdon	4	4					1	1	4	4			1	1

REPORT OF THE BOARD OF TRUSTEES (continued)

14. Meeting Attendance (continued)

Trustee / committee member	Board		Audit & Risk		Investment		Benefit review		Remuneration		Communication & Education		Ad-hoc	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Trustees - Member elected														
W Endersby	3	4	2	2	4	5					1	1		
B R Bishop	3	4												
P J Bartlett	3	3					1	1						
H G Gastrow	3	3											1	1
L A A Loock	1	1												
K P Quinn	1	1												
External														
M K Changfoot			2	2										
I N Scheepers			2	2										
R Hannie			2	2										
R Mathabathe									3	4				

A – Number of meetings attended

B – Total number of meetings that could be attended

Ad-hoc – The ad-hoc Board committee dealt with the move to Click directmedicines and the review of biologicals.

15. Non-compliance

The following instances of non-compliance with the Medical Schemes Act (Act no 131 of 1998) 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 through its holdings in the pooled Allan Gray Stable Medical portfolio. 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 had been granted exemption from the Council for Medical Schemes until 28 October 2010. A further extension was requested and granted until 31 October 2012, with the condition to dispose of the investment by that time and a request for further specific information regarding the holding. This information was supplied and a formal response is awaited from the Council of Medical Schemes.

As at 31 December 2010 the market value of the foreign share holding amounted to R2 717 690 (2009: R3 278 163)

Late receipt of contributions

Contravention of section 26(7) of the Act. Contributions from a number of employers were received later than three days after it became due in terms of the Society’s rules. The Society has agreements in place with employers to settle monthly contributions in respect of pensioner post retirement medical subsidies within three days of it becoming due. The risk of default on payments is minimal because of the restricted nature of the Society and the employer base. A rule change will be considered to deal with a current timing issue.

15. Non-compliance (continued)

Society incurred a net healthcare deficit

Contravention of Section 33(2) of the Act. In terms of Section 33(2) the Society 'shall be self-supporting in terms of membership and financial performance'. During the year the Society incurred a net healthcare deficit of R5 772 878 (2009: R20 167 632).

The Society's financial position at year end and financial results for the year are sound. This is confirmed by the exceptional solvency rate of 139% (2009: 129%) which exceeds the prescribed solvency ratio of 25%. It is not the intention of the Society to make a profit. The Society's investment income enables it to target a breakeven position and 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 analysed and corrective action taken where necessary. The strategic review conducted in June 2010 indicated that the Society would remain a competitive self administered restricted scheme under a number of scenarios for the foreseeable future. The benefits, contribution levels and administration costs of the Society would also remain competitive compared to the industry.

Claims not paid within 30 days

Contravention of Section 59 (2) of the Act. Claims are generally paid within 30 days of receipt, but due to certain procedures and clinical auditing, there are exceptions where certain claims are only paid after 30 days of receipt.

DE BEERS BENEFIT SOCIETY



STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

FOR THE YEAR ENDED 31 DECEMBER 2010

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 17 to 56 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 as 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 appointed 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 16.

The annual financial statements were approved by the Board of Trustees on 24 March 2011 and are signed on its behalf by:


C J BLANCHENBERG
CHAIRMAN


R W KETLEY
VICE CHAIRMAN


L COETZEE
PRINCIPAL OFFICER

24 March 2011

DE BEERS BENEFIT SOCIETY



STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES

FOR THE YEAR ENDED 31 DECEMBER 2010

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. The Society was conditionally accredited as an administrator in December 2010 following an evaluation by the Council of Medical Schemes of the Society's compliance with administration standards as determined by the Council.

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.


C J BLANCHENBERG
CHAIRMAN


R W KETLEY
VICE CHAIRMAN


L COETZEE
PRINCIPAL OFFICER

24 March 2011



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 2010, and the statements of comprehensive income, changes in member funds and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the trustees report, as set out on pages 17 to 56

Trustees' Responsibility for the Financial Statements

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Medical Schemes Act of South Africa, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of De Beers Benefit Society as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting and in the manner required by the Medical Schemes Act of South Africa.


PricewaterhouseCoopers Inc

Director: Leon de Wet

Registered Auditor

Sunninghill

24 March 2011

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DE BEERS BENEFIT SOCIETY
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010



	<u>Notes</u>	<u>2010</u> R	<u>2009</u> R
ASSETS			
Non-current assets			
Property, plant and equipment	2	178 671	306 495
Intangible assets	3	18 660	13 059
Current assets			
Other financial assets at fair value through profit or loss	4	238 774 688	193 794 753
Trade and other receivables	5	6 586 507	7 316 417
Cash and cash equivalents	6	138 887 029	156 918 898
Total assets		384 445 555	358 349 622
FUNDS AND LIABILITIES			
Members' funds			
Accumulated funds		351 993 026	325 897 154
Non-current liabilities			
Post retirement liability	7	9 682 662	9 305 222
Current liabilities			
Trade and other payables	8	8 837 364	9 105 803
Risk transfer arrangement	9	732 503	641 443
Outstanding claims provision	10	13 200 000	13 400 000
Total funds and liabilities		384 445 555	358 349 622

DE BEERS BENEFIT SOCIETY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010



	<u>Notes</u>	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Net contribution income		227 018 795	223 639 867
Relevant healthcare expenditure		(217 435 003)	(225 983 811)
Net claims incurred	11	(218 313 726)	(226 625 254)
Net income from risk transfer arrangement		878 723	641 443
<i>Risk transfer arrangement fees</i>		(732 503)	(641 443)
<i>Recoveries from risk transfer arrangement</i>		1 611 226	1 282 886
Gross healthcare results		9 583 792	(2 343 944)
Managed care: Management services	12	(982 089)	(943 907)
Administration expenses	13	(13 997 805)	(14 654 148)
Post retirement medical expenses	7	(377 440)	(1 598 846)
Net impairment reversals / (losses) on healthcare receivables	14	664	(626 787)
Net healthcare results		(5 772 878)	(20 167 632)
Other income		34 160 896	39 820 686
Investment income	15	33 586 483	39 345 481
Sundry income	16	574 413	475 205
Other expenditure		(2 292 146)	(2 093 854)
Asset management and monitoring costs	17	(2 292 146)	(2 093 854)
Total comprehensive income for the year		26 095 872	17 559 200

DE BEERS BENEFIT SOCIETY
STATEMENT OF CHANGES IN MEMBER FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2010



	<u>2010</u>	<u>2009</u>
	<u>R</u>	<u>R</u>
<u>Accumulated Funds</u>		
Balance at beginning of the year	325 897 154	308 337 954
Total comprehensive income for the year	<u>26 095 872</u>	<u>17 559 200</u>
Balance at end of the year	<u><u>351 993 026</u></u>	<u><u>325 897 154</u></u>

DE BEERS BENEFIT SOCIETY
STATEMENT OF CASH FLOWS



FOR THE YEAR ENDED 31 DECEMBER 2010

	<u>Notes</u>	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flows from operations before working capital changes	18	(7 256 459)	(23 365 519)
Working capital changes			
Decrease in trade and other receivables		739 098	3 720 458
Decrease in trade and other payables		(177 379)	(1 724 237)
(Decrease) / increase in outstanding claims provision		(200 000)	1 100 000
		(6 894 740)	(20 269 298)
Interest received		11 558 468	17 826 720
Net cash available from / (utilised in) operating activities		<u>4 663 728</u>	<u>(2 442 578)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Other financial assets at fair value through profit or loss			
Purchase of investments	4	(110 038 597)	-
Proceeds on disposal of investments	4	85 079 291	8 969 330
Costs incurred in managing investments	17	2 292 146	2 093 854
Property, plant and equipment and intangible assets			
Proceeds on disposal of assets	16	3 019	-
Purchase of assets	2 & 3	(31 456)	(108 261)
Net cash (used in) / generated from investing activities		<u>(22 695 597)</u>	<u>10 954 923</u>
Net (decrease) / increase in cash and cash equivalents		(18 031 869)	8 512 345
Cash and cash equivalents at the beginning of the year		<u>156 918 898</u>	<u>148 406 553</u>
Cash and cash equivalents at the end of the year	6	<u><u>138 887 029</u></u>	<u><u>156 918 898</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, 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 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 require 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 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)

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

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).

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 the scope of IFRIC 9. (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 itself 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 provides guidance with respect to accounting for receiving contributed property, plant and equipment (or cash to acquire it) from customers. (Effective 1 Jul 2009)

1.3 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 January 2011 and are relevant to the Society's operations.

IFRS 7 – *Financial Instruments: Disclosure*: This amendment adds an explicit statement that qualitative disclosures should be made in context of quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from the financial instrument. In addition existing disclosure requirements were either amended or removed. (Effective 1 Jan 2011)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

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

IFRS 9 – Financial Instruments: This standard simplifies the mixed measurement model set-out in IAS 39 (Financial instruments: Recognition and Measurement) and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of the classification depends on the business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on the impairment of financial assets and hedge accounting continues to apply. (Effective 1 Jan 2013)

IAS 24 – Related Party Disclosures: This revision amends the definition of a related party and modifies certain disclosure requirements for government-related entities. (Effective 1 Jan 2011)

IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction: This amendment removes the unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. In certain circumstances the prepayment of contributions will be recognised as an asset rather than an expense. (Effective 1 Jan 2011)

The Trustees are in the process of assessing the impact of these standards, amendment and interpretations on the Society's annual financial statements.

1.4 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 2010 and 1 January 2011 but they are currently not relevant to the Society's operations:

IFRS 3 – Business Combinations: This amendment:

- Clarifies that an outstanding contingent considerations arising from a business combination financially accounted for in accordance with IFRS 3 (2004) continues to be accounted for in terms of IFRS 3 (2004) after the adoption of IFRS 3 (2008);
- Limits the accounting policy choice to measure non-controlling interest upon initial recognition at fair value or a proportionate share of the acquiree's identifiable net assets and that entitles the holder to a share of the net assets in the event of liquidation.
- Expands the guidance on the attribution of market-based measures of share-based payments when the acquirer is obliged to replace the acquiree's existing unexpired awards. (Effective 1 Jan 2011)

IAS 1 – Presentation of Financial Statements: The amendment clarifies that changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or the notes. (Effective 1 Jan 2011)

IAS 27 – Consolidated and Separate Financial Statements: This amendment clarifies that the consequential amendments to IAS 21 (The Effects of Change in Foreign Exchange Rates), IAS 28 (Investments in Associates) and IAS 31 (Interest in Joint Ventures) resulting from IAS 27 (2008) should be applied prospectively. (Effective 1 Jan 2011)

IAS 34 – Interim Financial Reporting: The amendment adds examples to the list of events or transactions that require disclosure and remove references to materiality. (Effective 1 Jan 2011)

IFRIC 13 – Customer Loyalty Programmes: The amendment clarifies that the fair value of award credits takes into account the amount of discount or incentive that otherwise would be offered to customers that have not earned the award credit. (Effective 1 Jan 2011)

IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments: This interpretation provides guidance on the accounting for debt for equity swaps. (Effective 1 Jan 2011)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.5 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 useful lives are:

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.

1.6 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 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. Gains (sale price exceeds the book value) and losses (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. PRINCIPAL ACCOUNTING POLICIES (continued)

1.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation 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.

1.8 Financial assets

The Society classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. 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) Other financial assets at fair value through profit or loss

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the 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.

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.

'Other 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 reduction of the fair value of the security held in respect of 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' and 'other financial assets at fair value through profit and loss', 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.

Investments in linked insurance policies are valued at the market value of the underlying assets for each policy, in line with the insurer's valuation practices.

Investments in collective investment schemes are valued at fair value which is the quoted unit values, as derived by the collective investment scheme manager, with reference to the rules of each particular collective scheme.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.8 Financial assets (continued)

Gains or losses arising from changes in the fair value of 'other 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. Interest and dividend income from 'other 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.

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 testing of trade and other receivables is described in note 1.9.

1.9 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 'net impairment reversals/(losses) on healthcare receivables' in 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.

1.10 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.

1.11 Trade and other payables

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

1.12 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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.12 Provisions (continued)

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.

1.13 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.

1.14 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.

1.15 Contribution income

Contributions are accounted for monthly when the collection is reasonably certain. 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.

1.16 Relevant healthcare expenditure

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

1.17 Claims incurred

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.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.17 Claims incurred (continued)

Net claims incurred comprise:

- claims submitted and accrued for services rendered during the year, net of discount received and 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. An anticipated recovery 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 claims reported not yet paid.

1.18 Managed care

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

1.19 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.

1.20 Investment income

(a) Interest

Interest income in respect of financial assets carried at amortised costs is accounted for in the Statement of Comprehensive Income as 'investment income' using the effective interest rate method.

(b) Collective investment scheme distribution

Distribution from collective investment schemes are recognised when the right to receive payment is established.

(c) Income from policies with insurance companies

Income from investment policies with insurance companies is included in the adjustment to the fair value movement of the financial asset.

(d) Adjustment to fair value

Gains or losses arising from changes in the value of 'other assets at fair value through profit and loss' are presented in the Statement of Comprehensive Income in the period in which it arise.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

1.20 Investment income (continued)

(e) Realised gains and losses

Gains and losses arising from the realising of 'other assets at fair value through profit and loss' are presented in the Statement of Comprehensive Income in the period in which it arise.

1.21 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.

1.22 Asset management and monitoring

Expenses are recognised as the services are rendered for the management and the monitoring of the Society's investments. The expenses include payments to investment advisors and managers in terms of their mandates and agreements, as well as expenses associated with the activities of the Investment Committee and the Society's management.

The basis for allocation of 'asset management and monitoring' expenses has changed during the year as set out in note 17.

1.23 Reimbursement from third parties

The Society grants assistance to its members in defraying expenditure in connection with rendering of any relevant health services. Such expenditure may be in connection with a claim that is also made against a third party, for instance the Road Accident Fund. If the member is reimbursed by the third party, they are obliged contractually to cede that payment to the Society to the extent that they have already been compensated.

The reimbursement from the third party is a possible asset that arises from a claim submitted and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Society. Due to the uncertain outcome of these claims, the Society has accounted for reimbursements on a cash received basis. Amounts received from members in respect of reimbursements from third parties are recognised as third party claim recoveries and deducted from claims incurred.

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>
2010			
Cost	157 611	1 212 169	1 369 780
Opening balance	150 891	1 254 121	1 405 012
Additions	20 536	-	20 536
Disposals	(13 816)	(41 952)	(55 768)
Accumulated depreciation	(60 301)	(1 130 808)	(1 191 109)
Opening balance	(54 421)	(1 044 096)	(1 098 517)
Depreciation for the year	(15 962)	(128 663)	(144 625)
Disposals	10 082	41 951	52 033
Net book value	97 310	81 361	178 671
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

Depreciation expense of R144 625 (2009: R167 772) have been included in 'administration expenses' (note 13)

3. INTANGIBLE ASSETS

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Software		
Cost	154 650	143 730
Opening balance	143 730	140 168
Additions	10 920	3 562
Accumulated depreciation	(135 990)	(130 671)
Opening balance	(130 671)	(128 007)
Depreciation for the year	(5 319)	(2 664)
Net book value	18 660	13 059

Depreciation expenses of R5 319 (2009: R2 664) have been included in 'administration expenses' (note 13)

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

Linked insurance policies and collective investment schemes are classified as 'held at fair value through profit or loss'. The fair value 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.

Equities – Local	33 398 816	57 403 767
Equities – Foreign	2 717 690	3 278 163
Bonds and debentures	7 539 673	10 976 553
Domestic cash	195 118 509	122 136 270
	238 774 688	193 794 753

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

Beginning of the year	193 794 753	179 365 147
Invested	110 038 597	-
Realised gains	9 174 227	157 449
Unrealised gains	9 285 942	24 539 301
Interest received	2 947 852	888
Investment fees	(1 387 392)	(1 298 702)
Proceeds from disposals	(85 079 291)	(8 969 330)
End of the year	238 774 688	193 794 753

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 'cash flows from operations before working capital changes' in the Statement of Cash Flows (note 18) as well as in 'investment income' in the Statement of Comprehensive Income. (note 15)

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 Financial Service Providers (FSPs), with high credit ratings and no defaults in the past.

5. TRADE AND OTHER RECEIVABLES

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Recoveries from members for co-payments	2 969 694	2 759 702
Other receivables	4 219 359	5 035 521
Healthcare receivables	7 189 053	7 795 223
Net impairment losses on healthcare receivables	<u>(855 379)</u>	<u>(864 567)</u>
	6 333 674	6 930 656
Prepayments	184 203	212 768
Accrued interest	65 603	163 588
Staff loans	3 027	9 405
	<u>6 586 507</u>	<u>7 316 417</u>

At 31 December 2010 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	5 848 204	5 795 457
Past due but not impaired	485 470	1 135 199
Impaired and provided for	855 379	864 567
	<u>7 189 053</u>	<u>7 795 223</u>

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

As at 31 December 2010, trade and other receivables of R485 470 (2009: R1 135 199) 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 2010 is as follows:

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Up to 4 months	427 969	280 259
Over 4 months	57 501	854 940
End of the year	<u>485 470</u>	<u>1 135 199</u>

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

Beginning of the year	864 567	239 062
Amount recognised in the Statement of Comprehensive Income	<u>(9 188)</u>	<u>625 505</u>
End of the year	<u>855 379</u>	<u>864 567</u>

The creation and release of provision for impaired healthcare receivables have been included in 'net impairment reversals / (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**6.1 Cash at bank and on hand**

Current accounts	17 678 372	10 504 504
Cash on hand	<u>100</u>	<u>100</u>
	<u>17 678 472</u>	<u>10 504 604</u>

6. CASH AND CASH EQUIVALENTS (continued)

6.2 Fixed interest and other money market instruments

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Beginning of the year	146 414 294	136 895 796
Invested	-	867 561
Realised gains/(losses)	628 986	(3 077 142)
Unrealised losses	(8 992)	(101 734)
Interest received	10 646 403	16 677 849
Investment fees	(402 239)	(429 756)
Proceeds from disposals	(36 069 895)	(4 418 280)
End of the year	<u>121 208 557</u>	<u>146 414 294</u>
Cash and cash equivalents	<u>138 887 029</u>	<u>156 918 898</u>

Changes in fair value are presented within the section on 'cash flows from operations before working capital changes' in the Statement of Cash Flows (note 18) as well as in 'investment income' in the Statement of Comprehensive Income. (note 15)

The counterparties are existing deposit taking institutions with no defaults in the past and credit ratings of A and above.

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

7. POST RETIREMENT LIABILITY

7.1 Post 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. This liability is wholly unfunded.

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

Beginning of the year	9 305 222	7 706 376
Expenses in respect of the current year	377 440	1 598 846
Benefits paid	(551 847)	(465 485)
Service cost	127 282	133 031
Intercompany transfers	-	180 158
Interest cost	877 252	620 584
Actuarial (gain) / loss	(75 247)	1 130 558
End of the year	<u>9 682 662</u>	<u>9 305 222</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

7. POST RETIREMENT LIABILITY (continued)

7.1 Post employment medical benefits (continued)

	<u>2010</u>	<u>2009</u>
	<u>R</u>	<u>R</u>
The methodologies used in this valuation remained unchanged from those used in the previous valuation:		
Gross discount rate	8.5%	9.3%
Pre-retirement mortality	Males: SA72-77; Females: SA72-77 rated down 3 years (same for 2009)	
Post-retirement mortality	Males: PA90 (base table); Females: PA90 (base table) (PFL 90 base table used in 2009)	
Continuation of membership at retirement	95%	90%
Assumed rate of contribution increases	6.9%	7.6%
Assumed net discounted rate	1.5%	1.5%

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

Post employment medical payments	464 174	453 676
Expenses in respect of the current year	377 440	1 598 846
Benefits paid	(551 847)	(465 485)
Service cost	127 282	133 031
Intercompany transfers	-	180 158
Interest cost	877 252	620 584
Actuarial (gain) / loss	(75 247)	1 130 558
	841 614	2 052 522

Of the total charge R377 440 (2009: R1 598 846) was included in 'post retirement medical expenses' and R464 174 (2009: R453 676) in 'administration expenses'.

If the assumed future rate of medical inflation was 1% higher the liability would have been R1 384 621(14.3%) (2009: R1 349 257 (14.5%)) higher and if it was 1% lower it would have been R1 113 506 (11.5%) (2009: R1 078 406 (11.6%)) lower.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
At 31 December				
Present value of medical obligation	9 682 662	9 305 222	7 706 376	6 213 512
Actuarial (gain) / loss on liability	(75 247)	1 130 558	1 165 645	275 552

7.2 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 2010, indicated that the Fund was in a sound financial position. The next actuarial valuation will be performed in 2013, with annual actuarial reviews in interim periods.

8. TRADE AND OTHER PAYABLES

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Insurance liabilities		
Contributions received in advance	4 570 915	4 569 807
Reported claims not yet paid	952 323	851 879
Unallocated receipts and refunds to members	1 110 282	1 543 850
	<u>6 633 520</u>	<u>6 965 536</u>
Non insurance liabilities		
Leave provision	549 295	573 454
Sundry accounts payable	1 654 549	1 566 813
	<u>2 203 844</u>	<u>2 140 267</u>
	<u>8 837 364</u>	<u>9 105 803</u>

At 31 December 2010 the carrying amounts of accounts payable approximate their fair values due to the short-term maturities of these liabilities.

9. RISK TRANSFER ARRANGEMENT

Own claims incurred if no risk transfer arrangement was in place (note 11)	1 611 227	1 282 886
Saving due to risk transfer arrangement	<u>(878 724)</u>	<u>(641 443)</u>
Expense incurred	<u>732 503</u>	<u>641 443</u>

The Society operated a risk transfer contract with ER24 service for emergency ambulance services. The Society pays a fixed fee per member per month 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	13 400 000	12 300 000
Payments in respect of prior year	<u>(12 464 102)</u>	<u>(11 895 941)</u>
Over provision in respect of prior year	935 898	404 059
Adjustment for current year (note 11)	<u>12 264 102</u>	<u>12 995 941</u>
End of the year	<u>13 200 000</u>	<u>13 400 000</u>

10. OUTSTANDING CLAIMS PROVISION (continued)

Process used to determine the assumptions

The Society requested the Health Monitor Company to estimate the provision for outstanding claims for the scheme at 31 December 2010 using the Health Monitor Computer Model (the model). The model estimates claims incurred by service date based on the Society's demographic profile and claims experience.

The Health Monitor Company has been contracted by the Society for more than six 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 Health Monitor Company 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 Society were used, incorporating all membership movements for the period January to December 2010. Membership is analysed on a beneficiary-level by 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 model and chain ladder techniques.

The 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 2011 for 2010, adjusted for inflation and the number of beneficiaries in the Society;
- Traditional "chain ladder" methods, using claims development patterns derived from 2009 and 2010; and
- An analysis of claims already paid in 2011 for 2010, 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 2011 and February 2011 (2010: R12 042 986; 2009: R12 424 361).

If the actual claims settled for 2010 after February 2011 vary by 10% from the provision, the variance on the outstanding claims provision will be R115 701(2009: R97 564) higher or lower, which represent 0.88% (2009: 0.73%) of the total provision.

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)****11. NET CLAIMS INCURRED**

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Claims incurred, excluding claims incurred in respect of risk transfer arrangement	207 460 445	214 506 766
Claims incurred in respect of risk transfer arrangement (note 9)	<u>1 611 227</u>	<u>1 282 886</u>
Total claims incurred	209 071 672	215 789 652
Discount received on claims	<u>(3 022 048)</u>	<u>(2 160 339)</u>
	206 049 624	213 629 313
Adjustment for outstanding claims provision (note 10)	<u>12 264 102</u>	<u>12 995 941</u>
Net claims incurred	<u>218 313 726</u>	<u>226 625 254</u>

12. MANAGED CARE

Case and Disease Management	699 353	660 481
Medical Advisor	<u>282 736</u>	<u>283 426</u>
	<u>982 089</u>	<u>943 907</u>

13. ADMINISTRATION EXPENSES

Actuarial costs	550 426	421 384
Audit fees - Audit services	318 060	297 263
Audit fees - Internal audit	122 894	119 600
Bank charges	157 642	208 515
Building and maintenance	117 466	511 301
Computer expenses	317 459	355 689
Depreciation (notes 2 and 3)	149 944	170 436
Fidelity insurance	97 150	108 102
Medical administration system	3 152 438	3 254 215
Postage	224 904	132 415
Printing and stationery	69 901	115 448
Telephone	105 616	100 989
Trustees' remuneration and other considerations (notes 17 and 19)	237 494	99 763
Staff costs	6 944 976	7 342 486
Other expenses (note 17)	<u>1 431 435</u>	<u>1 416 542</u>
	<u>13 997 805</u>	<u>14 654 148</u>

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)****14. NET IMPAIRMENT REVERSALS / (LOSSES) ON HEALTHCARE RECEIVABLES**

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Provision for impairment (note 5)	9 188	(625 505)
Written off as uncollectible	(8 524)	(1 282)
	<u>664</u>	<u>(626 787)</u>

15. INVESTMENT INCOME

Other financial assets at fair value through profit or loss	21 408 021	24 697 637
Net realised gains	9 174 227	157 448
Net unrealised gains	9 285 942	24 539 301
Interest received	2 947 852	888
Cash and cash equivalents	12 178 462	14 647 844
Net realised gains / (losses)	628 986	(3 077 142)
Net unrealised losses	(8 992)	(101 734)
Interest received	11 558 468	17 826 720
	<u>33 586 483</u>	<u>39 345 481</u>

16. SUNDRY INCOME

DART administration fee	215 749	262 280
Bequest	359 380	212 928
Loss on disposal of property, plant and equipment	(716)	(3)
Proceeds on disposal	3 019	-
Net book value (note 2 & 3)	(3 735)	(3)
	<u>574 413</u>	<u>475 205</u>

17. ASSET MANAGEMENT AND MONITORING COSTS

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Asset management and monitoring fees (note 19)	2 134 342	2 049 190
Financial Service Providers fees – Other financial assets at fair value through profit or loss (note 4)	1 387 392	1 298 702
Financial Service Provider fees – Cash and cash equivalents (note 6)	402 239	429 756
Asset consulting fees and costs	344 711	320 732
Expenses associated with activities of the Investment Committee	157 804	44 664
Travelling and accommodation	21 497	8 197
Legal costs	68 676	-
Trustee remuneration and other considerations (note 19)	67 631	36 467
- <i>Travelling and accommodation</i>	40 681	12 667
- <i>Attendance fees</i>	26 950	23 800
	2 292 146	2 093 854

Reallocation of costs

During the year under review the Board of Trustees approved a policy change regarding the allocation of costs relating to the management and monitoring of investments. The policy now provides that these costs are included in 'asset management and monitoring costs'. The trustees are of the opinion that this will result in a more accurate representation of the costs incurred in managing the investments of the Society.

In previous years costs associated with activities of the Investment Committee were included in the Statement of Comprehensive Income as 'administration expenses'.

This change in policy has resulted in the reduction of 'administration expenses' as per the Statement of Comprehensive Income by R157 804 (2009: R44 664) and a corresponding increase in 'asset management and monitoring costs'.

The following comparative figures in the Statement of Comprehensive Income were reclassified:

Administration expenses reduced by (note 13)	157 804	44 664
Other expenses	90 173	8 197
Trustee remuneration and other considerations	67 631	36 467
Net healthcare results improved	157 804	44 664
Asset management and monitoring costs increased	(157 804)	(44 664)
Impact on total comprehensive income	-	-

DE BEERS BENEFIT SOCIETY**NOTES TO THE ANNUAL FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)****18. CASH FLOWS FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES**

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Total comprehensive income for the year	26 095 872	17 559 200
Adjusted for:		
Provision for impairment of healthcare receivables (note 14)	(9 188)	625 505
Provision for post retirement medical expenses (note 7)	377 440	1 598 846
Depreciation (note 2 & 3)	149 944	170 436
Loss on disposal of property, plant and equipment (note 16)	716	3
Interest received (note 15)	(11 558 468)	(17 826 720)
Costs incurred in managing investments (excl. cost included in 'other financial assets at fair value through profit or loss') (note 17)	(904 754)	(795 152)
Other financial assets at fair value through profit or loss	(21 408 021)	(24 697 637)
Realised gains (note 15)	(9 174 227)	(157 448)
Unrealised gains (note 15)	(9 285 942)	(24 539 301)
Interest received (note 15)	(2 947 852)	(888)
Cash flows from operations before working capital changes	<u>(7 256 459)</u>	<u>(23 365 519)</u>

19. RELATED PARTY TRANSACTIONS

The following transactions have been entered into with related parties for the relevant year:

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Participating Employers		
<u>Statement of Comprehensive Income</u>		
Net contributions received	<u>227 018 795</u>	<u>223 639 867</u>

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 advisorsStatement of Comprehensive Income

Asset management and monitoring fees paid	<u>2 134 342</u>	<u>2 049 190</u>
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The following Financial Service Providers (FSPs) have significant influence over the De Beers Benefit Society as they participate in the execution of their agreements and 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 (*up to 30 June 2010*)
- Taquanta Asset Managers – investment managers
- Prescient Investment Management – investment managers (*from 1 July 2010*)



19. RELATED PARTY TRANSACTIONS (continued)

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, Manager and their immediate family members.

Terms and conditions of the related party transactions were as follows:

- Contributions: This constitutes the contributions received from the related parties as a member of the Society, in their individual capacity. All contributions were at the same terms as applicable to third parties.
- Claims: This constitutes amounts claimed by the related parties, in their individual capacity as members of the Society. All claims were paid in terms of the rules of the Society, as applicable to third parties.
- Claims debt: This constitutes the related parties co-payments 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 Society. All claims debt was at the same terms as applicable to third parties.

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
<u>Statement of Comprehensive Income</u>		
Trustee remuneration and other considerations (note 13 & 17)	305 125	136 230
Trustee contributions	394 248	373 800
Trustee claims incurred	328 295	513 995
Key management remuneration	1 972 022	1 768 152
Key management contributions	90 864	84 420
Key management claims incurred	50 428	64 363
 <u>Statement of Financial Position</u>		
Trustee claims debt	2 392	4 156
Key management claims debt	1 058	1 639

Breakdown of trustee remuneration and other considerations:

2010	Attendance fees R	Training and Education R	Travelling cost R	Total R
C J Blanckenberg	-	-	5 182	5 182
S E O Dietrich	-	8 465	6 074	14 539
R W Ketley	-	8 464	8 458	16 922
C W Coltman	-	8 465	8 130	16 595
W Smerdon	-	8 465	6 396	14 861
L A A Looock	-	-	-	-
H G Gastrow	24 570	8 465	20 099	53 134
B R Bishop	22 860	8 464	16 136	47 460
P J Bartlett	24 570	8 464	18 472	51 506
K P Quinn	3 750	-	-	3 750
W Endersby	42 140	8 464	30 572	81 176
	<u>117 890</u>	<u>67 716</u>	<u>119 519</u>	<u>305 125</u>

19. RELATED PARTY TRANSACTIONS (continued)

Breakdown of trustee remuneration and other considerations: (continued)

2009	Attendance fees R	Training and Education 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 Looock	-	-	-	-
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>

Of the total 'trustee remuneration and other consideration' expense, R237 494 (2009: R99 763) were included in 'administrative expenses' (note 13) and R67 631 (2009: R36 467) in 'asset management and monitoring costs' (note 17) in the Statement of Comprehensive Income.

20. FINANCIAL RISK MANAGEMENT

The Society's activities expose it to a variety of financial risks: 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 and collective investment schemes, 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 annual financial statements approximate their fair values.

2010	Financial assets at fair value through profit and loss R	Loans and Receivables R	Financial liabilities at amortised cost R	Insurance receivables and payables R	Total carrying amount R
Investments					
Equity investments	36 116 506	-	-	-	36 116 507
Bonds and Debentures	7 539 673	-	-	-	7 539 672
Cash and cash equivalents	195 118 509	138 887 029	-	-	334 005 538
	<u>238 774 688</u>	<u>138 887 029</u>	<u>-</u>	<u>-</u>	<u>377 661 717</u>
Trade and other receivables	-	68 630	-	6 333 674	6 402 304
Trade and other payables	-	-	(1 654 549)	(20 566 023)	(22 220 572)
	<u>238 774 688</u>	<u>138 955 659</u>	<u>(1 654 549)</u>	<u>(14 232 349)</u>	<u>361 843 449</u>

20. FINANCIAL RISK MANAGEMENT (continued)

2009	Financial assets at fair value through profit and loss R	Loans and Receivables R	Financial liabilities at amortised cost R	Insurance receivables and payables R	Total carrying amount R
Investments					
Equity investments	60 681 930	-	-	-	60 681 930
Bonds and Debentures	10 976 553	-	-	-	10 976 553
Cash and cash equivalents	122 136 270	156 918 898	-	-	279 055 168
	193 794 753	156 918 898	-	-	350 713 651
Trade and other receivables	-	172 993	-	6 930 656	7 103 649
Trade and other payables	-	-	(1 566 813)	(21 006 979)	(22 573 792)
	193 794 753	157 091 891	(1 566 813)	(14 076 323)	335 243 508

Valuation techniques and assumptions applied

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

- 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.
- 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 2010, 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.

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

20. FINANCIAL RISK MANAGEMENT (continued)

At 31 December 2010 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 1.8.

The following table presents the Society's assets measured at fair value at 31 December 2010:

	<u>2010</u> <u>R</u>	<u>2009</u> <u>R</u>
Other financial assets at fair value through profit loss		
Level 1	238 774 688	193 794 753
Level 2	-	-
Level 3	-	-
	<u>238 774 688</u>	<u>193 794 753</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 co-ordinated by the Society's management under the auspices of the Audit and Risk Committee on behalf of the Board of Trustees.

Credit risk

Credit risk is the risk of a loss arising from the inability of a third party to service its debt obligations.

The Society's credit risk is primarily attributable to amounts receivable in respect of members' co-payments. Active working members' co-payments are guaranteed 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 Financial Service Providers (FSPs). The Society has no significant concentration of credit risk, with exposure spread over a number of counterparties and has a policy of limiting the amount of credit exposure to any one financial institution. 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
2010	7 189 053	71 891	143 782	359 455	718 905
2009	7 795 223	77 952	155 904	389 761	779 522

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

In order to further mitigate risk, there is a formal policy in place for the treatment of any debt that becomes past due. If this fails, long outstanding debt is handed over to a debt collection agency for recovery if feasible.

20. FINANCIAL RISK MANAGEMENT (continued)

Foreign investment risk

Foreign investment risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

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 2010.

The Society received British American Tobacco (BTI) shares during October 2008 following the unbundling by local companies Remgro and Richemont of their respective interests through its holdings in the pooled Allan Gray Stable Medical portfolio. 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 had been granted exemption from the Council for Medical Schemes until 28 October 2010. A further extension was requested and granted until 31 October 2012, with the condition to dispose of the investment by that time and a request for further specific information regarding the holding. This information was supplied and a formal response is awaited from the Council of Medical Schemes.

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 R2 717 690 (2009: R3 278 163).

If foreign equity prices had been 5% higher or lower the total comprehensive income for the year would have increased/decreased by R135 885 (2009: R163 908) as a result of the change in the fair value of ‘other financial assets held at fair value through profit and loss’.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in the interest rate.

The table below summarises the Society's exposure to institutional risk for interest bearing investments at 31 December 2010.

Cash and Cash equivalents (note 6)	2010 R	2009 R
Nedbank	121 651	122 011
Standard Bank	17 556 822	10 382 593
Taquanta Asset Managers	121 208 556	146 414 294
<i>Cash and Cash equivalents</i>	<i>138 887 029</i>	<i>156 918 898</i>
Other assets held at fair value through profit or loss (note 4)	195 118 509	122 136 270
Prescient Investment Management	114 653 458	-
Allan Gray Life	80 465 051	84 394 529
Investment Solutions	-	37 741 741
Total exposure to interest bearing investments	334 005 538	279 055 168



20. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

The majority of the cash and cash equivalents are invested by the Financial Service Providers (FSP's) with the five (5) major banks with A ratings and above. In order to reduce the impact of any potential interest rate changes, the Society holds a diversified portfolio of investments, both long- and short-term.

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 R3 340 554 (2009: R2 790 552).

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

Investment market risk

Investment market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market.

The linked insurance policies and the collective investment schemes 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 investments are fully performing. The assets underlying the investments are exposed to the equity and bond market. The majority of these assets, 82% (2009: 63%), 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 for domestic equity and bond investments as at 31 December 2010:

Other assets held at fair value through profit or loss (note 4)	2010 R	2009 R
Allan Gray Life	40 938 489	37 026 653
- Equity	33 398 816	37 026 653
- Bonds and Debentures	7 539 673	-
Investment Solutions	-	31 353 667
- Equity	-	20 377 114
- Bonds and Debentures	-	10 976 553
	40 938 489	68 380 320

If the domestic equity and bond prices had been 5% higher/lower the total comprehensive income for the year would have increased/ decreased by R2 046 924 (2009: R3 419 016) as a result of the change in the fair value of 'assets held at fair value through profit or loss'.

20. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk management

Liquidity risk is the risk that the Society will not be able to meet its financial obligations as they fall due.

The Society's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Society's reputation.

The Society manages liquidity risk by monitoring forecasted cash flows and ensuring that adequate cash is available. All the Society's liabilities are payable within one year, except for the post employment medical benefits liability.

The table below analyses the Society's financial liabilities into relevant maturity groupings based on the remaining period at reporting date:

As at 31 December 2010

	Total	Less than 1 month	Between 1 and 3 months	Longer than 3 months
	R	R	R	R
Trade and other payables				
Insurance liabilities	6 633 520	6 168 722	232 399	232 399
Non-insurance liabilities	2 203 844	1 512 824	234 368	456 652
	8 837 364	7 681 546	466 767	689 051
Outstanding claims	13 200 000	6 842 880	6 301 680	55 440
Risk transfer liability	732 503	-	732 503	-
	22 769 867	14 524 426	7 500 950	744 491
Available cash	(17 678 372)	(17 678 372)		
Liquidity (deficit)/excess	(5 091 495)	3 153 946		

As at 31 December 2009

	Total	Less than 1 month	Between 1 and 3 months	Longer than 3 months
	R	R	R	R
Trade and other payables				
Insurance liabilities	6 965 536	6 545 546	209 995	209 995
Non-insurance liabilities	2 140 267	1 527 426	143 333	469 508
	9 105 803	8 072 972	353 328	679 503
Outstanding claims	13 400 000	6 946 560	6 397 160	56 280
Risk transfer liability	641 443	-	641 443	-
	23 147 246	15 019 532	7 391 931	735 783
Available cash	(10 504 504)	(10 504 504)		
Liquidity deficit	(12 642 742)	(4 515 028)		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)

21. INSURANCE RISK MANAGEMENT

The primary insurance activity carried out by the Society assumes the risk of loss by members and their dependants that are directly subject to risk. This risk relates to the health of the Society members and dependants. 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 has appointed a Benefits Review Committee to review and consider the Society's insurance risk in terms of the documented Medical Insurance Risk Management Policy. This policy has been approved by the Board of Trustees. The requirements of the Medical Schemes Act were considered in compiling the policy. The Benefits Review committee is also responsible for recommending any changes to the benefit options in order to ensure that the Society's exposure to insurance risk remains within acceptable levels.

The Benefits Review committee annually reviews the Medical Insurance Risk Management Policy 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 Benefits Review committee is also responsible for recommending to the Board of Trustees whether or not the Society should enter into any risk transfer arrangements or commercial reinsurance contracts. Similarly the committee evaluates the effectiveness and efficiency of current risk transfer arrangements and commercial reinsurance contracts entered into by the Society. The Board of Trustees ultimately decides on whether or not to enter into risk transfer arrangements or commercial reinsurance contracts.

The Society manages its insurance risk through benefit limits and sub-limits, pricing guidelines, pre-authorisation and case management, management of the risk transfer arrangement, preferred providers arrangements, monitoring emerging issues and taking corrective actions as required. Certain risks are mitigated by entering into risk transfer arrangements. In this regard the Society has specifically decided to transfer all emergency medical transport and evacuation risk to an external service provider.

Several methods are used by the Society with the assistance of The Health Monitor Company to assess and monitor insurance risk exposure for individual risk types as well as overall risks. The Society analyses the distribution of claims per claim category, provider category and beneficiary 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 extent of risk, geographical location and demographics of members covered.

The following tables summarise 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 for 2010 and 2009 respectively:

Age group	General Practitioners	Specialists	Dentistry	Medicines	Hospitals	Auxiliary & Support Services	Total
	R	R	R	R	R	R	R
2010							
<19	2 634 530	4 029 813	1 748 388	3 477 048	6 065 939	1 657 553	19 613 271
20-34	2 039 667	4 061 528	1 135 454	2 962 128	5 789 484	2 003 237	17 991 498
35-49	2 555 424	7 606 684	2 104 450	7 500 297	8 961 735	3 684 845	32 413 435
50-64	3 924 204	17 203 918	2 793 912	20 748 401	27 551 942	7 252 809	79 475 186
65>	2 406 219	14 614 697	1 265 671	15 981 756	29 102 661	5 449 332	68 820 336
Total	13 560 044	47 516 640	9 047 875	50 669 630	77 471 761	20 047 776	218 313 726

21. INSURANCE RISK MANAGEMENT (continued)

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

If the claims experience varies by 1% the benefits provided would have been higher or lower by R2 183 137 (2009: R2 266 253).

General Practitioner benefits cover the cost of all visits by members to general practitioners and procedures, in – and out-of-hospital, 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) 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 members for treatment 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.

A preferred provider network agreement exists between the Society and Medi-Clinic for the rendering of private hospital services. This agreement is further enhanced by the inclusion of ER24 (risk transfer arrangement) in the preferred provider network agreement. The risk transfer arrangement with ER 24 reduced the cost of emergency ambulance services claims by R878 724 (2009: R641 443).

All these contracts are annual in nature.

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 Society'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 2011 is based on a number of assumptions, including price increases, utilisation and membership levels. The following sections illustrate the sensitivity of the 2011 solvency projection to certain assumptions.

21. INSURANCE RISK MANAGEMENT (continued)

Price increases

The final price increases were not available at the time of determining the pricing for 2011. Any changes in the price increases in excess or below the expected price increase will only impact on the claims expenditure for 2011, and therefore the projected solvency ratio. The table below sets out the solvency ratio of different possible scenarios regarding price increases.

Assumptions	2011		2010	
	Solvency ratio	Difference	Solvency ratio	Difference
Average expected price increase of 7% (2010: 8%)	122.7%		126.2%	
<i>Average price increase of 2% less than expected</i>	124.7%	2.0%	128.1%	1.9%
<i>Average price increase of 1% less than expected</i>	123.7%	1.0%	127.1%	0.9%
<i>Average price increase of 1% more than expected</i>	121.7%	(1.0%)	125.2%	(1.0%)
<i>Average price increase of 2% more than expected</i>	120.7%	(2.0%)	124.2%	(2.0%)

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 2011 will differ. The table below sets out the solvency ratio of different possible scenarios.

Assumptions	2011		2010	
	Solvency ratio	Difference	Solvency ratio	Difference
Average expected utilisation increase of 2% (2010: 2%)	122.7%		126.2%	
<i>Average utilisation increase of 2% less than expected</i>	124.8%	2.1%	128.3%	2.1%
<i>Average utilisation increase of 1% less than expected</i>	123.8%	1.1%	127.2%	1.0%
<i>Average utilisation increase of 1% more than expected</i>	121.7%	(1.0%)	125.1%	(1.1%)
<i>Average utilisation increase of 2% more than expected</i>	120.6%	(2.1%)	124.0%	(2.2%)

Ageing of membership

In general, the benefit utilisation by members increases with age. If the actual increase in average age is different to the assumed, the expected claims expenditure for 2011 will differ. The table below sets out the solvency ratio of different possible scenarios.

Assumptions	2011		2010	
	Solvency ratio	Difference	Solvency ratio	Difference
Average age of 42.2 (2010: 40.7) assumed in the pricing exercise	122.7%		126.2%	
<i>Average age of members decrease by 2 years</i>	128.0%	5.3%	131.6%	5.4%
<i>Average age of members decrease by 1 years</i>	124.9%	2.2%	128.4%	2.2%
<i>Average age of members increase by 1 years</i>	121.3%	(1.4%)	124.6%	(1.6%)
<i>Average age of members increase by 2 years</i>	120.0%	(2.7%)	123.0%	(3.2%)

21. INSURANCE RISK MANAGEMENT (continued)

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 2011 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	2011		2010	
	Solvency ratio	Difference	Solvency ratio	Difference
Claims experience of R3 270 (2010: R2 913) per principal member per month assumed in the pricing exercise	122.7%		126.2%	
<i>Claims experience 8% lower than expected</i>	131.0%	8.3%	134.5%	8.3%
<i>Claims experience 4% lower than expected</i>	126.9%	4.2%	130.3%	4.1%
<i>Claims experience 4% higher than expected</i>	118.6%	(4.1%)	122.0%	(4.2%)
<i>Claims experience 8% higher than expected</i>	114.4%	(8.3%)	117.8%	(8.4%)

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.

Assumptions	2011		2010	
	Solvency ratio	Difference	Solvency ratio	Difference
Total membership of 80 004 (2010: 82 596) principal members per month assumed	122.7%		126.2%	
<i>Membership 10% lower than assumed</i>	136.8%	14.1%	140.7%	14.5%
<i>Membership 5% lower than assumed</i>	129.4%	6.7%	133.0%	6.8%
<i>Membership 5% higher than assumed</i>	116.7%	(6.0%)	119.9%	(6.3%)
<i>Membership 10% higher than assumed</i>	111.2%	(11.5%)	114.3%	(11.9%)

21. INSURANCE RISK MANAGEMENT (continued)

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. Changes 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 linked to different possible scenarios.

Assumptions	2011		2010	
	Solvency ratio	Difference	Solvency ratio	Difference
Contribution income of R3 153 (2010: R2 783) per principal member per month assumed	122.7%		126.2%	
<i>Contribution income 4% lower than assumed</i>	123.7%	1.0%	127.3%	1.1%
<i>Contribution income 2% lower than assumed</i>	123.2%	0.5%	126.7%	0.5%
<i>Contribution income 2% higher than assumed</i>	122.3%	(0.4%)	125.6%	(0.6%)
<i>Contribution income 4% higher than assumed</i>	121.9%	(0.8%)	125.2%	(1.0%)

22. 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%.

The solvency ratio of the Society at end December 2010 was 139% (2009: 129%) This ratio can be expressed as 16.7 months cover (2009: 15.5 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.

23. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE

On 21 January 2011 De Beers Consolidated Mines (DBCM) announced the sale of Finsch Mine. All the working members (367 members at 31 December 2010) will join the medical scheme of the purchaser in terms of the sale agreement. Current pensioner members associated with Finsch Mine will remain members of the Society. Discussions aimed at negating the impact of the loss of the cross subsidy associated with the membership termination of the Finsch Mine working members, to the Society, have commenced with DBCM.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS**FOR THE YEAR ENDED 31 DECEMBER 2010 (continued)****23. EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE (continued)**

The effective date of the sale is not yet known at this stage and therefore an accurate calculation of the impact on the Society's results for 2011 cannot be made. The table below sets out the estimated possible impact on the net healthcare results and the additional contribution increase required to offset this change.

Withdrawal month (end of the month)	Change in net Healthcare results	Increase in contribution
March 2011	(R2 881 427)	1.3%
June 2011	(R1 911 769)	0.8%
September 2011	(R1 041 310)	0.5%
December 2011	-	-

The Board is of the opinion that this event will not influence the ability of the Society to remain a going concern.

24. 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 medical aid 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.

25. NON-COMPLIANCE

The following instances of non-compliance with the Medical Schemes Act (Act no 131 of 1998) 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 through its holdings in the pooled Allan Gray Stable Medical portfolio. 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 had been granted exemption from the Council for Medical Schemes until 28 October 2010. A further extension was requested and granted until 31 October 2012, with the condition to dispose of the investment by that time and a request for further specific information regarding the holding. This information was supplied and a formal response is awaited from the Council of Medical Schemes.

As at 31 December 2010 the market value of the foreign share holding amounted to R2 717 690 (2009: R3 278 163)

Late receipt of contributions

Contravention of section 26(7) of the Act. Contributions from a number of employers were received later than three days after it became due in terms of the Society's rules. The Society has agreements in place with employers to settle monthly contributions in respect of pensioner post retirement medical subsidies within three days of it becoming due. The risk of default on payments is minimal because of the restricted nature of the Society and the employer base. A rule change will be considered to deal with a current timing issue.

25. NON-COMPLIANCE (continued)

Society incurred a net healthcare deficit

Contravention of Section 33(2) of the Act. In terms of Section 33(2) the Society 'shall be self-supporting in terms of membership and financial performance'. During the year the Society incurred a net healthcare deficit of R5 772 878 (2009: R20 167 632).

The Society's financial position at year end and financial results for the year are sound. This is confirmed by the exceptional solvency rate of 139% (2009: 129%) which exceeds the prescribed solvency ratio of 25%. It is not the intention of the Society to make a profit. The Society's investment income enables it to target a breakeven position and 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 analysed and corrective action taken where necessary. The strategic review conducted in June 2010 indicated that the Society would remain a competitive self administered restricted scheme under a number of scenarios in the foreseeable future. The administration costs of the Society would also remain competitive compared to the industry.

Claims not paid within 30 days

Contravention of Section 59 (2) of the Act. Claims are generally paid within 30 days of receipt, but due to certain procedures and clinical auditing, there are exceptions where certain claims are only paid after 30 days of receipt.