

BENEFIT BEAT

Summary of Financial
Statements for 2010



Despite challenges, Society remains healthy!

The healthcare industry is taking increasing strain, with the Council of Medical Schemes stating in its latest annual report that “(a) number of open and restricted schemes suffered severe losses in 2009”. The average solvency ratios for both open and restricted schemes saw a decline, with that of restricted schemes dropping from 49.8% to 42.5%. In these circumstances the news that the Benefit Society’s solvency ratio has increased from 129% to 139% can offer its members some comfort.

Membership

The average age of our membership is still on the increase and will in all likelihood continue to do so going forward. This will be exacerbated by the sale of Finsch Mine and resultant loss of younger, working members. The increasing average age will continue to contribute to an increase in the claims cost per member and thus put pressure on contribution increases required in the future. It is therefore important that the Society keeps a close watch over claiming patterns and increases its efforts to manage all claims by applying industry best practice in this regard and also with regard to its benefit structures. This is in the interest of members, and thus of the Society as a whole. Members are also urged to assist by exercising care in their utilisation of benefits, thereby limiting claims cost. In this regard members are reminded that the Society is a mutual, not-for-profit entity maintained for the benefit of its members. It relies solely on contribution and investment income in providing benefits to its members.

Financial results

The Trustees are pleased to report that the Society ended the financial year with an overall return on investments of 9.8% (2009: 12.2%). Investments generated an income of R 33.6 million (2009: R 39.3 million), contributing to the sustainability of the Society. After incorporating investment income, the Society reflected a surplus from operations for the year of R 26.1 million (2009: R 17.6 million) which increased the accumulated funds to R 352 million. This considerable year-on-year increase in the surplus from operations is mainly due to a reduced healthcare expenditure relating to medicine and hospital benefits.

Sustainability

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.

Developments to streamline service delivery and manage claims cost

The contract with Chronicare Medicines, which was appointed in 2009 as the designated service provider (DSP) for dispensing chronic medication to members, was cancelled during the year. Clicks directmedicines was consequently appointed as the new service provider in September 2010. This afforded the Society the opportunity to reduce the profit margin levied by the new DSP.

The use of Generic Reference Pricing (GRP) in 2010 also resulted in the Society realising a significant reduction in medication costs.

The Society continued to enforce hospital pre-authorisation protocols to preferred network hospitals, further managing hospitalisation costs during the year.

Trustee Elections

Following the election process, the new member-elected trustees to serve on the board until the AGM in 2013, are Hans Gastrow, Pat Barlett, Huck Endersby and Bernard Bishop. The Employer confirmed its nomination of Roger Ketley, Craig Coltman and Wayne Smerdon as Trustees to the Board.

During the year under review, Stephen Dietrich retired as chairman and trustee and was replaced by Colin Blanckenberg. We wish Colin well in his role as Chairman, and would like to thank Stephen for his contribution to the Society and wish him well into the future.

↓ Membership	↑ Average age of members	↓ Beneficiaries	↑ Pensioner ratio	↓ Claims	↑ Solvency ratio	↓ Investment returns
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Meet the Trustees and Management

Back row (L-R):
Wayne Smerdon, Hans Gastrow, Craig Coltman, Leon Coetzee (Principal Officer), Steven Beangstrom (Manager DBBS)

Front (L-R):
Pat Bartlett, Huck Endersby, Colin Blanckenberg (Chairman), Roger Ketley, Bernard Bishop

Principal accounting policies

The Annual Financial Statements (AFS) have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, except for other financial assets at fair value through profit or loss, and trade and other receivables at fair value. The principal accounting policies have been consistently applied to all the years presented, unless otherwise stated. For full details about the principal accounting policies, please refer to pp. 21-29 of the complete AFS, which is available for download at www.dbbs.co.za.

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.

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 focused on continuous business improvement throughout the year. The Society has also commenced a process of reviewing its full set of Rules, in consultation with the Society's legal advisors.

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 nature and was performed by an individual 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.

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.



The De Beers Benefit Society is a not-for-profit restricted medical scheme registered in terms of the Medical Schemes Act 131 of 1998 (the Act), as amended.
The Society currently provides only one option.

Key information at a glance



	2010	2009
Accumulated funds per Statement of Financial Position	351 993 026	325 897 154
	Less: Unrealised gains (35 536 923)	(37 126 614)
Accumulated funds per Regulation 29	316 456 103	288 770 540
Gross contributions	227 018 795	223 639 867
	Solvency ratio	139%
	129%	
Accumulated funds per member at 31 December	48 708	40 718

Extracts from financial statements

Financial position at 31 December 2010

	2010 R'000	2009 R'000
Assets		
Non-current assets		
Property, plant and equipment	179	307
Intangible assets	19	13
Current assets		
Other financial assets at fair value through profit or loss	238 775	193 795
Trade and other receivables	6 586	7 316
Cash and cash equivalents	138 887	156 919
Total assets	384 446	358 350
Funds And Liabilities		
Members' funds		
Accumulated funds	351 993	325 897
Long-term liabilities		
Post retirement liability	9 683	9 306
Current liabilities		
Trade and other payables	8 837	9 106
Risk transfer arrangement	733	641
Outstanding claims provision	13 200	13 400
Total funds and liabilities	384 446	358 350

Outstanding claims provision

Outstanding claims refer to the provision for the Society's estimate of the ultimate cost of settling all claims incurred, but not yet reported (IBNR) at the financial year end. It is calculated as accurately as possible by the actuaries, based on a number of factors, including previous experience in claims patterns and 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. The movement for the year can be summarised as follows:

	2010 R'000	2009 R'000
Beginning of the year	13 400	12 300
Payments in respect of prior years	(12 464)	(11 896)
Over provision in respect of prior year	936	404
Adjustment for current year	12 264	12 996
End of the year	13 200	13 400

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).

Events after balance sheet 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.

The Board is of the opinion that this event will not influence the ability of the Society to remain self-supporting in terms of membership and financial performance. (Refer note 23 to the annual financial statements - page 54)

Related parties

De Beers Benefit Society is a restricted medical scheme, where members are employees of the principal employer and associated employers. The principal employer appoints half the Board of Trustees, but does not participate in the Society's financial and operating decisions.

Members' and employers' proportionate share of contributions and co-payments are collected through the principal and associated employers' payroll systems. Contributions of R394 248 (2009: R373 800) were received and claims of R328 295 (2009: R513 995) were paid in respect of those Trustees who are also members of the Society. Such claims are paid in accordance with the Rules of the Society. Payments made to Trustees are reflected under Note 19 of the full set of the AFS.

Trustees do not receive any remuneration, except for retired member-elected Trustees, who receive compensation for each meeting attended. Key management personnel received remuneration of R1 972 022 (2009: R1 768 152).

Statement of comprehensive income for the year ended 31 December 2010

	2010 R'000	2009 R'000
Net contribution income	227 019	223 640
Relevant healthcare expenditure	(217 435)	(225 984)
Net claims incurred	(218 314)	(226 625)
Net expense on risk transfer arrangement	879	641
Risk transfer arrangement fees	(732)	(641)
Recoveries from risk transfer arrangement	1 611	1 282
Gross healthcare results	9 584	(2 344)
Managed care: Management services	(982)	(944)
Administration expenses	(13 997)	(14 654)
Post retirement medical expense	(377)	(1 599)
Net impairment losses on healthcare receivables	(1)	(627)
Net healthcare result	(5 773)	(20 168)
Other income	34 161	39 821
Investment income	33 586	39 346
Sundry income	575	475
Other expenditure	(2 292)	(2 094)
Asset management and monitoring fees	(2 292)	(2 094)
Total comprehensive income for the year	26 096	17 559

Statement of changes in funds for the year ended 31 December 2010

	2010 R'000	2009 R'000
Balance at beginning of the year	325 897	308 338
Net surplus for the year	26 096	17 559
Balance at end of the year	351 993	325 897



Actuarial services

The Society makes use of an actuary to assist it in modelling its liabilities and insurance risk. 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 also consulted during September 2010 to help determine the contribution and benefits levels for the 2011 benefit year.

Tax certificates - 2011

Members have been issued with a tax certificate as at the end of February 2011. This certificate accompanied the February monthly statement from the De Beers Benefit Society.

Certificates are available on the Society's website (www.dbbs.co.za) under the personal login section of the website.

For any queries, please contact the Society on tel: 053 – 807 3400 or e-mail benefitpost@dbbs.co.za

Investment income

	2010 R'000	2009 R'000
Other financial assets at fair value through profit or loss	21 408	24 698
Net realised gains	9 174	158
Net unrealised gains	9 286	24 539
Interest received	2 948	1
Cash and cash equivalents	12 178	14 648
Net realised gains/(losses)	629	(3 077)
Net unrealised losses	(9)	(102)
Interest received	11 558	17 827
	33 586	39 346

Change in Accounting Policy

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 R 157 804 (2009: R 44 663) and in the corresponding increase in 'asset management and monitoring costs'. The net effect on the Statement of Comprehensive Income is R nil. Refer to note 17 (page 40) in the annual financial statements for more information.

Meeting Attendance

The following schedule sets out Board of Trustee and Board committee meeting attendance. Trustee remuneration is disclosed in note 19 (page 41) 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
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 Looek	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 = Meetings Attended B = Meetings that could be attended

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

Refer to note 21 (page 50) in the annual financial statements for more information.



Non-compliance

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

Foreign shareholding

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 holds shares in British American Tobacco (BTI) to the value of R 2 717 690 (2009: R 3 278 164) since the unbundling by Remgro and Richemont in October 2008. 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, conditional upon the disposal of the investment by that time. This condition was queried with the Council and current indications are that a formal response from the Council is imminent.

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 due to a timing issue. 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.

Society incurred a healthcare deficit

Contravention of Section 33(2) of the Act. During the year the Society incurred a net healthcare deficit of R 5 772 878 (2009: R 20 167 632). 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.

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.

Service providers to the Society during the year

Investment advisors:

Alexander Forbes Financial Services

Investment managers:

Allan Gray Life
Investment Solutions
Taquanta Asset Managers
Prescient Investment Management

Actuaries:

The Health Monitor Company

Auditors:

PricewaterhouseCoopers

Independent auditors' report on the financial statements

We have audited the annual financial statements of De Beers Benefit Society, which comprise the Statement of Financial Position as at 31 December 2010, the Statement of Comprehensive Income, Statement of Changes in Funds, the Statement of Cash Flows and a summary of significant accounting policies and other explanatory notes, from which these financial statements were derived.

In our report dated 24 March 2011, we expressed an unqualified opinion on the signed

annual financial statements from which the summarised financials were derived. In our opinion, the accompanying summarised financial statements are consistent, in all material aspects, with the signed annual financial statements from which they were derived.

For a better understanding of the Society's financial position and the results of operations for the year ended 31 December 2010, and the scope of our audit, the summarised financial statements should be read in conjunction with

the signed annual financial statements from which the summarised financial statements were derived, as well as our report on these financial statements.

PricewaterhouseCoopers Inc
2 Eglin Road, Sunninghill

**Director: Leon de Wet,
Registered Auditor**

24 March 2011

Notice of AGM

NOTICE IS HEREBY GIVEN THAT THE 122nd ANNUAL GENERAL MEETING OF THE DE BEERS BENEFIT SOCIETY WILL BE HELD IN THE DE BEERS 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 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



Would you like to know more?

The summarised financial statements are presented in considerably less detail than the annual audited financial statements, which are prepared in compliance with International Financial Standards and contain additional disclosures, such as insurance risk and financial risk management.

For a better understanding of the Society's financial position and the result of operations, the summarised financial statements should be read in conjunction with the audited financial statements.

If you would like a full set of financials, please do one of the following:

Contact the Society's communications department on 053 807 3363;

Collect them from the Society's Offices at Kimberley House, 84 Du Toitspan Road, Kimberley;

Write to the Principal Officer at PO Box 1922, Kimberley, 8300, and request to have a copy mailed to you; or

Download the financial statements from the Society's website, at www.dbbs.co.za