



NAMPAK MEDICAL SCHEME

REGISTRATION NUMBER: 1154

ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2008

## NAMPAK SA MEDICAL SCHEME

### ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

The reports and statements set out below comprise the annual financial statements and Board of Trustees' report presented to members:

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## NAMPAK SA MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES  
for the year ended 31 December 2008

### DESCRIPTION OF THE MEDICAL SCHEME

The Nampak SA Medical Scheme is a not for profit restricted membership Medical Scheme, registered in terms of the South African Medical Schemes Act 131 of 1998, as amended.

The Scheme provides benefits to its members under two options, the Standard Option and the Extended Option.

### BOARD OF TRUSTEES IN OFFICE DURING THE YEAR UNDER REVIEW

F Tshiqi	(Chairperson)
M Browne	(resigned 23 June 2008)
Z Dingezweni	(appointed 14 November 2008)
N Goulding	(appointed 18 April 2008)
A Hanson	
L Haripersad	
G Janse van Vuuren	
K Kathan	(resigned 18 April 2008)
C Lemao	(appointed 21 August 2008)
J Mol	
J Morrow	
K Ntshangase	(appointed 29 February 2008 and resigned 14 November 2008)
V Shiluvana	(resigned 29 February 2008)
D Thomas	(appointed 14 November 2008)

### AUDIT AND RISK COMMITTEE DURING THE YEAR UNDER REVIEW

T Jacobs	(Chairperson)
M Browne	(resigned 23 June 2008)
L Kidd	
S Meisel	
J Morrow	
E Smuts	

### INVESTMENT COMMITTEE DURING THE YEAR UNDER REVIEW

J Mol	(Chairperson)
M Browne	(resigned 23 June 2008)
L Kidd	
J Morrow	
S Steyn	

NAMPAK SA MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)  
for the year ended 31 December 2008

PRINCIPAL OFFICER

AS Steyn 114 Dennis Road Atholl Gardens Sandton 2010	PO Box 784324 Sandton 2146
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Street Address 1-3 Canegate Road La Lucia Ridge 4019	Postal Address PO Box 2338 Durban 4000
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ADMINISTRATOR

Momentum Medical Scheme Administrators (Pty) Ltd  
*(a wholly-owned subsidiary of the Momentum Group Limited)*  
1-3 Canegate Road  
La Lucia Ridge  
4019

INVESTMENT MANAGERS

Coronation Life Assurance Company Ltd  
Boundary Terraces  
1 Mariendahl Lane  
Newlands  
7700

Allan Gray Life Ltd  
Beach Road  
V & A Waterfront  
Cape Town  
8081

Fifth Quadrant Actuaries and Consultants (Pty) Ltd  
30 Melrose Boulevard  
Melrose Arch  
2196

CONSULTANT

Fifth Quadrant Actuaries and Consultants (Pty) Ltd  
30 Melrose Boulevard  
Melrose Arch  
2196

## NAMPAK SA MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)  
for the year ended 31 December 2008

### AUDITORS

Deloitte & Touche  
2 Pencarrow Crescent  
Pencarrow Park  
La Lucia Ridge  
4019

### INVESTMENT STRATEGY OF THE MEDICAL SCHEME

The Scheme's investment objectives are to maximise the return on its investments on a long term basis at minimal risk. The investment strategy takes into consideration both constraints imposed by legislation and those imposed by the Board of Trustees.

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

- the scheme remains liquid;
- investments are placed at minimum risk with the best possible return;
- investments made are in compliance with the regulations of the Act; and
- a risk assessment is performed with feedback to the Board of Trustees with recommendations on the risks identified.

The Board of Trustees continued to invest excess funds in line with the requirements of the Medical Schemes Act 131 of 1998, as amended.

Investments of the Scheme are maintained in a fixed cash deposit account, money market account and two investment portfolios : Allan Gray Life - Domestic Stable Medical Scheme Portfolio and Coronation Life - Coronation Medical Aid Portfolio.

### ACCUMULATED FUNDS

Movements in the accumulated funds are set out in the statement of changes in accumulated funds in the annual financial statements. There have been no unusual movements that the Board of Trustees believe should be brought to the attention of the members. The accumulated funds ratio at 31 December 2008 was 74.4% (2007: 72.0%) excluding cumulative unrealised gains on investments held at fair value through the income statement of R34 252 202 (2007: R29 659 528).

### REVIEW OF THE YEAR'S ACTIVITIES

Nampak SA Medical Scheme enjoyed another year of sound financial performance, ending the year with a accumulated funds ratio as at December 2008 of 74.4% (2007: 72.0%).

The results of the Scheme are set out in the attached annual financial statements, and the trustees believe that no further clarification is needed.

## NAMPAK SA MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)  
for the year ended 31 December 2008

### BOARD OF TRUSTEES, SUB COMMITTEES AND MEETING ATTENDEES

The following schedules sets out the composition of the Board of Trustees and sub-committees and their respective meeting attendances.

	Board Meetings		Investment Committee Meetings		Audit & Risk Committee Meetings	
	A	B	A	B	A	B
F Tshiqi	5	5				
M Browne	2	2	2	2	2	2
Z Dingenzeni	1	1				
N Goulding	4	4				
A Hanson	5	4				
L Haripersad	5	4				
G Janse van Vuuren	5	5				
K Kathan	1	-				
L Kidd			4	4	3	2
C Lemaio	2	2				
J Mol	5	5	4	4		
J Morrow	5	5	4	4	3	3
K Ntshangase	4	3				
V Shiluvana	1	-				
D Thomas	1	-				
T Jacobs					3	3
S Meisel					3	3
E Smuts					3	3
S Steyn	5	4	4	4	3	3

A - total possible number of meetings could have attended

B - actual number of meetings attended

NAMPAK SA MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)  
for the year ended 31 December 2008

OPERATIONAL STATISTICS

	2008		
	Standard Option	Extended Option	Total Scheme
Number of members at the end of the accounting period	2,498	2,661	5,159
Number of beneficiaries at the end of the accounting period	6,324	6,111	12,435
Average number of members for the accounting period	2,455	2,685	5,139
Average number of beneficiaries for the accounting period	6,286	6,260	12,546
Average net contribution per beneficiary per month (pbpm)	R649	R1,098	R873
Pensioner ratio (beneficiary age > 65)	3.2%	15.2%	9.1%
Average age per beneficiary	29.59	41.92	35.64
Relevant healthcare expenditure per average beneficiary	R496	R1,061	R778
Non healthcare expenditure per average beneficiary	R83	R89	R86
Average accumulated funds per member at the end of the accounting period			R27,336
Dependants per member at the end of the accounting period	1.53	1.30	1.41
Return on investments as a % of investments			8%
Relevant healthcare expenditure as a percentage of gross contributions	76%	84%	82%

	2007		
	Standard Option	Extended Option	Total Scheme
Number of members at the end of the accounting period	2,417	2,717	5,134
Number of beneficiaries at the end of the accounting period	6,293	6,542	12,835
Average number of members for the accounting period	2,388	2,759	5,147
Average number of beneficiaries for the accounting period	6,325	6,749	13,074
Average net contribution per beneficiary per month (pbpm)	R590	R996	R799
Pensioner ratio (beneficiary age > 65)	3.1%	13.4%	8.4%
Average age per beneficiary	29.49	40.32	35.01
Relevant healthcare expenditure per average beneficiary	R455	R969	R721
Non healthcare expenditure per average beneficiary	R76	R80	R78
Average accumulated funds per member at the end of the accounting period			R25,015
Dependants per member at the end of the accounting period	1.60	1.41	1.50
Return on investments as a % of investments			11%
Relevant healthcare expenditure as a percentage of gross contributions	77%	85%	82%

# - ratio not presented per policy

## NAMPAK SA MEDICAL SCHEME

REPORT OF THE BOARD OF TRUSTEES (continued)  
for the year ended 31 December 2008

### OUTSTANDING CLAIMS

Movements in the outstanding claims provision are set out in Note 7 to the annual financial statements. There have been no unusual movements that the Trustees believe should be brought to the attention of the members.

### AUDIT COMMITTEE

An Audit Committee was established in accordance with provisions of the Medical Schemes Act of South Africa, as amended. 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 which one is a member of the board of trustees. The majority of the members, including the chairperson, are not officers of the Scheme or its third party administrator.

In accordance with the provisions of the Medical Schemes Act of South Africa, as amended, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme'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 audit committee met on three occasions during the course of the year, as follows:

- 29 February 2008
- 18 April 2008
- 21 August 2008

The Principal Officer, the financial manager of the administrator, the external auditors and the internal auditors attend all audit committee meetings by invitation and have unrestricted access to the Chairman of the audit committee.

### POST BALANCE SHEET EVENTS

No post-balance sheet events were identified that would require adjustment to or disclosure in the annual financial statements.

### NON-COMPLIANCE MATTERS

The Trustees are of the opinion that there are no material deviations from the Act. However, not all premiums are received within 3 days as prescribed by the Act but there are sufficient credit control policies to minimise the risk of non-recoverability. This risk is considered insignificant.

Claims are generally paid within 30 days of receipt but due to certain procedures such as clinical auditing, there are exceptions where certain claims are only paid after 30 days of receipt. The Scheme has acknowledged that since it only applies to a small percentage of claims where such procedures are necessary to validate claims, this risk is considered insignificant.

As a result of the unbundling of Remgro and Richemont, the Scheme now holds shares in British American Tobacco. As these shares are categorised as "shares held in territories outside of the Republic" in terms of Annexure B of the Act, this is an unintentional contravention of the Act. As the shares form part of a pooled portfolio of investments, the Scheme is unable to dispose of its holding and has therefore applied to the Council for Medical Schemes for exemption from the provisions of Annexure B of the Act within the 30 January 2009 deadline as stipulated in Circular 38 of 2008. The Scheme's intention is to dispose of these shares within 24 months due to current market conditions and the uncertainty of when conditions would improve. This has been communicated to Council.

### GENERAL

In general, a sound year with no incidents of litigation or other negative matters occurring during the year of review.

Trustees were briefed on all relevant aspects of the terms of reference of corporate governance during the course of the year.

The Chairperson of the Board of Trustees would like to thank the Trustees and the members of the audit committee for the positive and meaningful contributions during the year.

## NAMPAK SA MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008

### STATEMENT OF RESPONSIBILITY BY THE BOARD OF TRUSTEES

The Trustees are responsible for the preparation, integrity and fair presentation of the annual financial statements of Nampak SA Medical Scheme. The annual financial statements presented on pages 11 to 30 have been prepared in accordance with International Financial Reporting Standards and the Medical Scheme's Act of South Africa 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 and cash flows for the year and the financial position of the Scheme 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 proper accounting records are kept. The accounting records disclose with reasonable accuracy the financial position of the Scheme which enables the Trustees to ensure that the annual financial statements comply with relevant legislation.

Nampak SA Medical Scheme operates in a well-established control environment, which is well 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 Scheme 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 Scheme.

The Scheme's external auditor, Deloitte & Touche, are responsible for auditing the annual financial statements in terms of International Standards on Auditing and their audit report is presented on page 10.

The annual financial statements were approved by the Board of Trustees on 16 April 2009 and are signed on its behalf by:

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F Tshiqi  
Chairman

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G Janse van Vuuren  
Trustee

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A Steyn  
Principal Officer

## NAMPAK SA MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008

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

The Nampak SA Medical Scheme is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The Trustees are proposed and elected by the members of the Scheme and their employers.

#### BOARD OF TRUSTEES

The Trustees meet regularly and monitor the performance of the Scheme and the administrators. They address a range of key issues and ensure that discussion of items 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 Scheme.

#### INTERNAL CONTROL

The administrators of the Scheme maintain internal controls and systems designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability for its assets. 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 key internal controls and systems during the year under review.

#### AUDIT AND RISK MANAGEMENT

##### Structure

The Nampak SA Medical Scheme's Audit and Risk Committee was formed in the 2004 year as a sub-committee of the Scheme's Board of Trustees. The Committee is chaired by a non-executive chairperson who is independent of the Board of Trustees.

##### Accountability

The focus of risk management is on identifying, assessing, managing, monitoring and reporting material forms of risk across the Nampak SA Medical Scheme. The Board of Trustees are accountable for the total process of risk management and internal control, and its policy on risk management encompasses all significant business risks to the Scheme including strategic, financial, operational, technology and compliance risks.

The risk environment in which the Scheme operates is ever-changing. The Board of Trustees are responsible for regular appraisals of the risk environment in which they operate, and to ensure that significant risks are identified, assessed, managed and reported on.

## NAMPAK SA MEDICAL SCHEME

ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008

STATEMENT OF CORPORATE GOVERNANCE BY THE BOARD OF TRUSTEES (continued)

AUDIT AND RISK MANAGEMENT (continued)

### Risk Assessment

The Audit and Risk Committee used a structured methodology to assess the Scheme's risks. In addition to the financial risks expanded on under Note 20 to the annual financial statements, the main risks identified by this process as at 31 December 2008 are :

- inadequate member contribution versus claim modelling due to members shifting between scheme options;
- administrator's computer systems and disaster recovery procedures;
- cost escalations in pharmacy, hospital benefits and medical contributions;
- lack of continuity of trustee members;
- scheme's dependancy on the administrator;
- changes in the Medical Aid legislation that forces the Scheme to change the way it does business;
- administrator's ability to protect the scheme resources and interest;
- potential impact of the Risk Equalisation Fund (REF) on the Scheme;
- potential volatility of the Scheme's investment strategy; and
- influence of the parent company of the administrator.

### Risk Response

An appropriate system of internal control has been established by the Scheme's administrator to manage the Scheme's significant risks. This provides reasonable assurance that the Scheme's business objectives will be met, even in the event of a disastrous incident impacting on activities.

Risks are further controlled and managed by policies limiting exposure in specific areas such as finance, administration, claims handling and payments, information systems, treasury, and human resources, as well as external and internal insurance programmes.

The Scheme's administrator seeks to have a sound system of internal control, based on its policies and guidelines, in all material associates and contractors. Where this is not possible, the responsible directors of the Scheme's administrator seek assurance that significant risks are being managed in an acceptable manner, and provide bi-annual confirmation to the Scheme's Board of Trustees that such significant risks are being effectively managed.

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F Tshiqi  
Chairman

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G Janse van Vuuren  
Trustee

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A Steyn  
Principal Officer

16 April 2009

## INDEPENDENT AUDITOR'S REPORT

To the members of Nampak SA Medical Scheme

### Report on the Financial Statements

We have audited the annual financial statements of Nampak SA Medical Scheme, which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in accumulated funds and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 11 to 30.

### Trustees' Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 controls relevant to the Scheme'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 Scheme's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustees, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

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

Deloitte & Touche  
Per K Singh  
Partner  
16 April 2009

NAMPAK SA MEDICAL SCHEME

BALANCE SHEET  
at 31 December 2008

	Notes	2008 R	2007 R
<b>ASSETS</b>			
Current assets		177,214,881	164,973,311
Trade and other receivables	2	2,446,422	686,990
Investments held at fair value through the income statement	3	136,654,489	118,398,062
Cash and cash equivalents	4	38,113,970	45,888,259
Total assets		<u>177,214,881</u>	<u>164,973,311</u>
<b>FUNDS AND LIABILITIES</b>			
Accumulated funds		141,025,176	128,428,420
Current liabilities		36,189,705	36,544,891
Savings plan liability	5	27,694,160	27,469,781
Trade and other payables	6	1,500,367	1,630,726
Outstanding claims provision	7	6,995,178	7,444,384
Total funds and liabilities		<u>177,214,881</u>	<u>164,973,311</u>

## NAMPAK SA MEDICAL SCHEME

### INCOME STATEMENT

for the year ended 31 December 2008

	Notes	2008 R	2007 R
Net contributions income	8	131,423,361	125,389,207
Relevant healthcare expenditure		(117,121,231)	(113,046,392)
Net claims incurred	9	(117,071,179)	(112,963,509)
Claims incurred		(117,328,247)	(113,617,283)
Third party claim recoveries		257,068	653,774
Net expense on risk transfer arrangements	10	(50,052)	(82,883)
Risk transfer arrangement expenses		(400,862)	(389,101)
Claim recoveries from risk transfer arrangements		350,810	306,218
Gross healthcare result		14,302,130	12,342,815
Managed care: management services	11	(2,358,299)	(2,132,271)
Administration expenses	12	(10,507,291)	(10,065,116)
Net impairment (losses)/gains on healthcare receivables	13	(45,583)	11,900
Net healthcare result		1,390,957	157,328
Other income		14,279,429	17,460,377
Sundry income		2,537	11,791
Investment income	14	9,684,218	7,260,816
Unrealised gains on financial instruments	15	4,592,674	10,187,770
Other expenditure		(3,073,630)	(3,560,487)
Investment management fees		(994,342)	(1,969,392)
Interest paid on savings plan account balances	5	(2,079,288)	(1,591,095)
Net surplus for the year		12,596,756	14,057,218
Accumulated Funds (including unrealised gains)		98.3%	93.6%
Accumulated Funds (excluding unrealised gains)		74.4%	72.0%

NAMPAK SA MEDICAL SCHEME

STATEMENT OF CHANGES IN ACCUMULATED FUNDS  
for the year ended 31 December 2008

	Accumulated funds R
Balance as at 1 January 2007	114,371,202
Net surplus for the year	14,057,218
Balance as at 31 December 2007	<u>128,428,420</u>
Net surplus for the year	12,596,756
Balance as at 31 December 2008	<u><u>141,025,176</u></u>

NAMPAK SA MEDICAL SCHEME

CASH FLOW STATEMENT

for the year ended 31 December 2008

	Notes	2008 R	2007 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash inflow/(outflow) from operations before working capital changes	16	944,288	(235,082)
Working capital changes			
- Increase in trade and other receivables		(1,759,432)	(124,289)
- Increase in savings plan liability		224,379	62,989
- (Decrease)/increase in trade and other payables		(130,359)	173,839
Cash flows used in operations		(721,124)	(122,543)
Investment income		9,684,218	7,260,816
Interest paid on savings plan account balances		(2,079,288)	(1,591,095)
Investment management fees		(994,342)	(1,969,392)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>5,889,464</b>	<b>3,577,786</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchase of investments	3	(13,663,753)	(1,742,792)
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(7,774,289)</b>	<b>1,834,994</b>
Cash and cash equivalents at beginning of the year		45,888,259	44,053,265
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	4	<b>38,113,970</b>	<b>45,888,259</b>

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2008

#### 1. PRINCIPAL ACCOUNTING POLICIES

These annual financial statements have been prepared in conformity with International Financial Reporting Standards ("IFRS") on the going concern basis. The following are the principal accounting policies used by the Scheme, which are consistent with those of the previous year.

##### 1.1 Basis of preparation

The annual financial statements are prepared on the historical cost convention, except for investments held at fair value through the income statement, available for sale instruments and liabilities arising from the liability adequacy test, which are carried at fair value.

##### 1.2 Financial instruments

Financial assets and liabilities are recognised on the Scheme's balance sheet when it becomes a party to the contractual provisions of the instrument.

###### *Measurement*

Financial instruments are initially measured at cost plus, in the case of financial assets and liabilities not at fair value through the income statement, transaction costs that are directly attributable to acquisition or issue of the financial asset or liability. Subsequent to initial recognition, these instruments are measured as set out below.

###### *Investments*

All purchases and sales of investments are recognised on the trade date, which is the date that the Scheme commits to purchase or sell the asset. Cost of purchases includes transaction costs. Financial assets held at fair value through the income statement and available-for-sale investments are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of investments held at fair value through the income statement are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of the available-for-sale investments are included in the available-for-sale reserve and are not taken to the income statement. Once an available-for-sale investment is sold, the realised fair value gain or loss on the changes in the fair value of the available-for-sale investments is included in the income statement.

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

Trade and other receivables originated by the Scheme are stated at cost less an appropriate allowance for estimated irrecoverable amounts. This is recognised through the income statement when there is objective evidence that the asset is impaired.

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

Cash and cash equivalents are measured at fair value and comprise current bank accounts, deposits held on call with banks, and other short-term liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of change in value and bank overdrafts.

###### *Financial liabilities*

Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

###### *Offset*

Where a legally enforceable right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously or to settle on a net basis, all related financial effects are offset.

##### 1.3 Savings plan liability

The savings plan liability is measured at cost because it has a demand feature. Savings plan contributions are credited on the accrual basis and withdrawals are debited on a cash basis, i.e. no provision is made for outstanding savings claims at the year-end. Interest is credited on a monthly basis on outstanding balances at market related interest rates.

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

#### 1.4 Provisions

Provisions are recognised when the Scheme 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.

The outstanding claims provision represents the Trustees' estimate of the ultimate cost of settling all healthcare benefits costs that have occurred before the balance sheet date, but have not been reported to the Scheme by that date. The outstanding claims provision is reduced by the estimated recoveries from members for co-payments, and savings plan accounts.

#### 1.5 Medical Insurance contracts and liability adequacy test

Contracts under which the scheme accepts significant insurance risk from another party (the member) 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 liability for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability net of any related assets. Where a shortfall is identified, an additional provision is made and the scheme recognises the deficiency in income for the year.

#### 1.6 Contribution income

Contributions are received monthly. Net contributions represent gross contributions after deduction of savings plan contributions. The earned portion of net contributions received is recognised as revenue on the accrual basis. Net contributions are earned from the date of attachment of risk, over the indemnity period on a straight-line basis.

#### 1.7 Managed care: management services

These expenses represent amounts paid or payable to third party administrators, related parties and other third parties for managing the utilisation, costs and quality of healthcare services to the Scheme.

#### 1.8 Claims

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

- claims submitted and accrued for services rendered during the year, net of recoveries from members for co-payments, and savings plan accounts;
- 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, and savings plan accounts;
- movement in the provision for outstanding claims; and
- claims settled in terms of risk transfer arrangements.

Claims incurred relating to risk transfer arrangements are calculated on the basis of actual utilisation applied to National Health Reference Pricing.

#### 1.9 Risk transfer arrangements

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

Amounts recoverable under risk transfer arrangements are assessed for impairment at each balance sheet date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the scheme may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the scheme will receive under the risk transfer arrangement.

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

#### 1.10 Impairment gains and losses

The carrying amounts of the Scheme's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement in the period in which the adjustment is made to the estimate of the carrying amount.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in members' funds and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in members' funds is recognised in the income statement even though the financial asset has not been derecognised. The amount of the loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

#### Calculation of recoverable amount

The recoverable amount of the Scheme's trade and other receivables balances carried at amortised cost are calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Receivables with a short duration are not discounted.

#### Reversals of impairment

An impairment loss in respect of trade and other receivables balance carried at amortised cost is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the income statement. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of amortisation if no impairment loss had been recognised.

#### 1.11 Investment income

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Scheme. Dividends are recognised when they become payable to the scheme.

#### 1.12 IFRS standards and interpretations not yet effective

The following new accounting standards and interpretations are in issue, but not yet effective. None of these standards have been early adopted by the Scheme. The Trustees and the Principal Officer will consider the impact of these standards and interpretations on the Scheme's 2009 annual financial statements.

IFRS 2 Share Based Payments  
IFRS 3 Business Combinations  
IFRS 8 Operating Segments  
IAS 1 Presentation of Financial Statements  
IAS 23 Borrowing Costs (revised March 2007)  
IAS 27 Consolidated and Separate Financial Statements  
IAS 28 Investments in Associates  
IAS 31 Interests in Joint Ventures  
IAS 39 Financial Instruments : Recognition and Measurement  
IFRIC 13 Customer Loyalty Programmes  
IFRIC 15 Agreements for the Construction of Real Estate  
IFRIC 16 Hedges of a Net Investment in a Foreign Operation  
IFRIC 17 Distributions of Non-cash Assets to Owners

#### 1.13 Comparatives

Where necessary, comparative figures have been adjusted to conform with International Financial Reporting Standards. Refer Note 11 for analysis of managed care services.

NAMPAK SA MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008

	2008 R	2007 R
2. TRADE AND OTHER RECEIVABLES		
Contributions outstanding	815,366	182,807
Recoveries due from members and suppliers	39,706	394,076
Savings plan account advances (refer note 5)	297,236	293,730
	1,152,308	870,613
Less: Provision for impairment losses	(99,842)	(406,020)
	1,052,466	464,593
Accrued interest	1,308,790	189,774
Other	85,166	32,623
	2,446,422	686,990

The amount in the allowance for impairment during the year was as follows:

2008	Contribution debt	Member and supplier debt	Savings account advances	Total
Balance as at 1 January	25,000	368,878	12,142	406,020
Amount recognised in the income statement for the period (note 13)	29,265	12,505	3,813	45,583
Additional provisions made in the period	29,265	12,505	3,813	45,583
Amounts utilised during the period	-	(351,761)	-	(351,761)
Balance as at 31 December	54,265	29,622	15,955	99,842

2007	Contribution debt	Member and supplier debt	Savings account advances	Total
Balance as at 1 January	66,664	329,924	21,332	417,920
Amount recognised in the income statement for the period (note 13)	(41,664)	38,954	(9,190)	(11,900)
Additional provisions made in the period	-	38,954	-	38,954
Unused amounts reversed during the period	(41,664)	-	(9,190)	(50,854)
Balance as at 31 December	25,000	368,878	12,142	406,020

At year-end the carrying amounts of trade and other receivables approximate their fair values due to the short-term maturities of these assets.

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

	2008 R	2007 R
3. INVESTMENTS HELD AT FAIR VALUE THROUGH THE INCOME STATEMENT		
Fair value at the beginning of the year	118,398,062	106,467,500
Additions	13,663,753	1,742,792
Unrealised gain on revaluation of investments	4,592,674	10,187,770
Fair value at the end of the year	<u>136,654,489</u>	<u>118,398,062</u>
The investments included above represent investments in:		
Bonds	5,499,004	8,240,428
Cash and deposits	79,149,931	55,875,409
Equity funds	52,005,554	54,282,225
Fair value at the end of the year	<u>136,654,489</u>	<u>118,398,062</u>

A register of investments is available for inspection at the registered office of the Scheme. The investment managers actively trade the underlying portfolios with reference to the market values of the underlying investments.

The overall weighted average effective return on the above investments was 7.48% for the year ended 31 December 2008 (2007: 12.91%).

#### 4. CASH AND CASH EQUIVALENTS

Money market instruments	8,917,477	-
Fixed term deposits	28,351,453	31,808,456
Current accounts	845,040	14,079,803
	<u>38,113,970</u>	<u>45,888,259</u>

The weighted average effective interest rate on money market instruments was 12.5%.

The weighted average effective interest rate on fixed term deposits was 11.6% for the year ended 31 December 2008 (2007: 10.0%) and they have an average maturity of 90 days (2007: 60 days).

The overall weighted average effective interest rate on current accounts was 9.2% for the year ended 31 December 2008 (2007: 8.3%).

At year-end the carrying amounts of cash and cash equivalents approximate their fair values due to the short-term maturities of these assets.

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

	2008 R	2007 R
5. SAVINGS PLAN LIABILITY		
Balance on savings plan liability at beginning of the year	27,469,781	27,406,792
Less: Advances on savings plan accounts	(293,730)	(238,475)
Net balance on savings plan liability at the beginning of the year	27,176,051	27,168,317
Add:		
Savings plan account contributions received or receivable	12,311,462	12,106,995
- for the current year (refer note 8)	12,017,732	11,868,520
- allocated to settle prior year advances	293,730	238,475
Interest paid on savings plan account balances	2,079,288	1,591,095
Less:		
Transfers to other Schemes	(205,894)	(158,401)
Repayments on death or resignation	(1,158,955)	(1,060,634)
Claims paid on behalf of members (refer note 9)	(12,805,028)	(12,471,321)
Add:		
Advances on savings plan accounts included in trade and other receivables (refer note 2)	297,236	293,730
Net balance on savings plan liability at end of the year	<u>27,694,160</u>	<u>27,469,781</u>

It is estimated that claims to be paid out of members' savings accounts in respect of claims incurred in 2008 but not recorded will amount to R1 318 915 (2007: R2 818 269) (refer note 7).

The savings plan liability represents funds held on behalf of members by the Scheme. The savings plan facility assists members in managing the cash flows for costs to be borne by them during the year, meeting provider service expenses not covered in the Scheme's approved benefits and meeting or self funding member co-payments for provider services rendered.

Unexpended savings at the year-end are carried forward to meet future expenses for which the members are responsible. In terms of the Medical Schemes Act 131 of 1998, as amended, balances standing to the credit of members are only refundable in terms of Regulation 10 of the Regulations to the Medical Schemes Act 131 of 1998, as amended. In accordance with the rules of the Scheme, the bad debt risk of savings plans advances is underwritten by the Scheme.

#### 6. TRADE AND OTHER PAYABLES

Credit balances in trade and other receivables	89,016	92,025
Amounts payable to members	557,697	507,668
Sundry trade and other payables	853,654	1,031,033
	<u>1,500,367</u>	<u>1,630,726</u>

At the year end the carrying value of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

	2008 R	2007 R
7. OUTSTANDING CLAIMS PROVISION		
Provision for outstanding claims	6,995,178	7,444,384
Provision arising from liability adequacy test	-	-
	6,995,178	7,444,384
Analysis of movements in outstanding claims		
Balance at beginning of year	7,444,384	7,848,585
Analysed as follows		
Estimated gross claims	10,262,653	10,820,477
Less: Estimated recoveries from savings plan accounts	(2,818,269)	(2,971,892)
Payments in respect of prior year	(6,763,772)	(7,968,996)
Over/(under) provision in prior year (refer note 9)	680,612	(120,411)
Increase in provision for the current year	6,314,566	7,564,795
Balance at end of year	6,995,178	7,444,384
Analysed as follows		
Estimated gross claims	8,314,093	10,262,653
Less: Estimated recoveries from savings plan accounts	(1,318,915)	(2,818,269)
Balance at end of year	6,995,178	7,444,384

#### Basis for determination of the outstanding claims provision

The outstanding claims provision is a provision for the estimated cost of healthcare benefits that have occurred before the balance sheet date but have not been reported to the Scheme by that date. The provision is determined as accurately as possible based on a number of assumptions which are outlined below.

#### Process used to determine the assumptions

The process used to determine the assumptions is intended to result in neutral estimates of the most likely or expected outcome. The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out on a regular basis. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The actual method or blend of methods used varies by category of claims and observed historical claims development. To the extent that the historical claims development method is used, we assume that the historical pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development or recording of claims paid and incurred (such as changes in claims submission mechanisms);
- changes in composition of members and their dependants;
- changes to legislation;
- variations in the nature and average cost incurred per claim; and
- random fluctuations.

Notified claims are assessed with due regard to the claim circumstances, category, anticipated development, expected seasonal fluctuations, and information available from managed care: management services. The provisions are best estimates based on the most recent information available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate costs of the loss is difficult to estimate. The provision estimation difficulties also differ by category of claims (i.e. hospital (major medical benefit), chronic, and day-to-day) due to differences in the underlying insurance contract, claim complexity, the volume of claims, the individual severity of claims, determining the occurrence date of a claim, and reporting lags.

#### Assumptions

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the claim "run-off periods" for the most recent benefit years (split by discipline). The run-off factor is the expected percentage of claims paid out of total claims incurred in a specific month. This factor is then used to project the remainder of the outstanding claims relating to the specified service month. A "seasonality factor" is further incorporated into the calculation, also based on past claims experience. These assumptions have been used for assessing the outstanding claims provisions for the 2007 and 2008 benefit years.

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

#### 7. OUTSTANDING CLAIMS PROVISION (continued)

##### Changes in assumptions

The table below outlines the sensitivity of insured liability estimates to particular movements in assumptions used in the estimation process. It should be noted that this is a deterministic approach with no correlations between the key variables.

Where variables are considered to be immaterial, no impact has been assessed for insignificant changes to these variables. Particular variables may not be considered material at present. However, should the materiality level of an individual variable change, assessment of changes to that variable in the future may be required.

An analysis of sensitivity around various scenarios for the general medical insurance business provides an indication of the adequacy of the scheme's estimation process. The scheme believes that the liability for claims reported in the balance sheet is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise. Consequently, if for example the estimates of the unreceived portion of claims costs for the year was 5% inaccurate, the impact on the net surplus of the scheme would be as follows:

##### Impact on reported profits due to changes in key variables

	Change in variable %	Change in liability 2008 R	Change in liability 2007 R
Hospital (major medical benefit) claims ratio	5%	29,281	87,209
Chronic claims ratio	5%	2,699	10,634
Day-to-day claims ratio	5%	2,736	9,691

This analysis has been prepared for a change in a specified variable with other assumptions remaining constant.

The sensitivity is reduced by the value of the claims paid subsequent to the year end related to the year ended 31 December, as detailed below:

	2008 R	2007 R
Outstanding claims provision	6,995,178	7,444,384
Portion outstanding claims provision paid to date	6,300,845	6,527,195
Residual estimate of claims incurred but not paid	694,332	917,189

#### 8. NET CONTRIBUTION INCOME

Gross contributions	143,441,093	137,257,727
Less: Savings contributions (refer note 5)	(12,017,732)	(11,868,520)
Net contribution income	131,423,361	125,389,207

#### 9. NET CLAIMS INCURRED

Current year claims	130,231,926	125,532,813
Movement in outstanding claims provision	(706,529)	(404,201)
- Over/(under) provision in prior year (refer note 7)	680,612	(120,411)
- Adjustment for current year	(1,387,141)	(283,790)
Less:		
- Claims paid from savings accounts (refer note 5)	(12,805,028)	(12,471,321)
- Discounts received on claims	-	-
Claims incurred in respect of risk transfer arrangements: Netcare 911 (Pty) Ltd	350,810	306,218
	117,071,179	112,963,509

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

10. NET EXPENSE ON RISK TRANSFER ARRANGEMENTS	2008 R	2007 R
Netcare 911 (Pty) Ltd		
Recoveries under the risk transfer arrangement	350,810	306,218
Premiums paid in respect of risk transfer arrangement	(400,862)	(389,101)
	<u>(50,052)</u>	<u>(82,883)</u>

Netcare 911 (Pty) Ltd provides capitated emergency rescue and ambulance services to members of the Scheme.

11. MANAGED CARE: MANAGEMENT SERVICES		
Hospital Benefit Management	1,061,235	959,522
Pharmacy Benefit Management	707,490	639,681
Disease Management	471,660	426,454
Operational Risk Management	117,914	106,614
	<u>2,358,299</u>	<u>2,132,271</u>

Momentum Medical Scheme Administrators (Pty) Ltd provides managed care services to the Scheme. The amount represents in its entirety a percentage-based apportionment of the administration fees paid for the year to Momentum Medical Scheme Administrators (Pty) Ltd for performing these services. This has been reclassified for the prior year as well due to separate agreements being signed for administration and managed care services.

12. ADMINISTRATION EXPENSES		
Administrator's fees	8,926,261	8,529,085
Auditor's remuneration - current year	133,676	121,524
Board of Healthcare Funders (BHF) subscriptions	38,793	34,151
Consultants fees	342,000	355,876
Insurance	16,073	8,236
Publication costs	135,522	133,175
Management fees	745,079	686,758
Registrar's levies	75,085	66,486
Trustees expenses	56,349	70,894
Travel - general	19,747	39,140
Travel for auditors	8,251	11,361
Other	10,455	8,430
	<u>10,507,291</u>	<u>10,065,116</u>

13. NET IMPAIRMENT LOSSES/(GAINS) ON HEALTHCARE RECEIVABLES		
Outstanding member contributions - movement in provision	29,265	(41,664)
Members' and service providers' portions	12,505	38,954
Movement in provision	(339,256)	38,954
Written off	351,761	-
Advances from savings plan accounts - movement in provision	3,813	(9,190)
	<u>45,583</u>	<u>(11,900)</u>

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

14. INVESTMENT INCOME	2008 R	2007 R
Interest income	8,986,653	6,656,607
Dividends received	697,565	604,209
	<u>9,684,218</u>	<u>7,260,816</u>

15. UNREALISED GAINS ON FINANCIAL INSTRUMENTS		
Total unrealised gains on revaluation of investments carried at fair value through the income statement	<u>4,592,674</u>	<u>10,187,770</u>

16. CASH INFLOW/(OUTFLOW) FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES		
Reconciliation of net surplus for the year to cash flows from operations before working capital changes		
Net surplus for the year	12,596,756	14,057,218
Adjustments for:		
- Investment income	(9,684,218)	(7,260,816)
- Investment management fees	994,342	1,969,392
- Decrease in outstanding claims provision	(449,206)	(404,201)
- Interest paid on savings plan account balances	2,079,288	1,591,095
- Unrealised gains on financial instruments	(4,592,674)	(10,187,770)
Cash flows from operations before working capital changes	<u>944,288</u>	<u>(235,082)</u>

17. RELATED PARTY TRANSACTIONS		
Momentum Medical Scheme Administrators (Pty) Ltd, a wholly owned subsidiary of Momentum Group Ltd, as a third party administrator is deemed a related party, and received market related administration and managed care fees detailed as follows (refer notes 11 and 12):		
Administration fees	8,926,261	8,529,085
Managed care fees	<u>2,358,299</u>	<u>2,132,271</u>
	<u>11,284,560</u>	<u>10,661,356</u>
Amount (payable)/receivable at year end	<u>(2,765)</u>	<u>941</u>

Nampak Group (employer) was reimbursed for administration and management services provided (refer note 12).

Management fees	<u>745,079</u>	<u>686,758</u>
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Contributions billed to, contributions received from, and claims paid in respect of Trustees and the Principal Officer of the Scheme during the year, were done so in accordance with the rules of the Scheme and the provisions of the Medical Schemes Act. Accordingly, all Trustees and the Principal Officer were treated in the same manner by the Scheme as would any member have been, at arms length.

Net contribution income received from the Trustees and Principal Officer for the year was R337,018 (2007: R321,612). Net claims paid was R228,947 (2007: R372,681). There were no amounts owing to the Scheme by the Trustees and Principal Officer at 31 December. The Trustees and Principal Officer had positive savings balances of R164,220 (2007: R148,976) and negative savings balances of R572 (2007: R400).

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2008

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

In the process of applying the Scheme's accounting policies, management has made the following judgements that have the most significant effect on the amounts recognised in the annual financial statements:

Net impairment losses - outstanding contributions that are not recoverable

A historical experience basis has been applied to the current contribution billings to determine a reasonable estimate of potential future reversals of premiums already billed. In addition, outstanding contribution debtors have been assessed on an individual basis for possible impairment, and specific impairment provisions raised where applicable.

Net impairment losses - members' and service providers' portions

Accounts receivable from off benefit members are impaired fully. Accounts receivable from on benefit (i.e. current) members are not impaired. Service providers with accounts outstanding longer than 60 days are fully impaired on a case by case basis.

Net impairment losses - advances from savings plan accounts

Advances from savings plan accounts for off benefit members are impaired where the account is outstanding longer than 60 days. There is no impairment of advances from savings plan accounts for on benefit members.

Provision for outstanding claims

The provision for outstanding claims is an estimate of the potential liability at balance sheet date for claims that have been incurred by members but not yet received by the Scheme. The full details of the provision for outstanding claims are disclosed in note 7.

There are no key areas of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year.

#### 19. INSURANCE RISK MANAGEMENT

Risk management objectives and policies for mitigating medical insurance risk

The primary medical insurance activity carried out by the Scheme assumes the risk of loss from members and their dependants that are directly subject to the risk. These risks relate to the health of the Scheme members. As such the Scheme is exposed to the uncertainty surrounding the timing and severity of claims under the contract. The Scheme also has exposure to market risk through its medical insurance and investment activities.

The Scheme manages its medical insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation and case management, service provider profiling, centralised management of risk transfer arrangements as well as the monitoring of emerging issues.

The Scheme uses several methods to assess and monitor medical insurance risk exposures both for individual types of risks insured and overall risks. These methods include internal risk measurement models, sensitivity analyses, scenario analyses and stress testing. The theory of probability is applied to the pricing and provisioning for a portfolio of medical insurance contracts. The principal risk is that the frequency and severity of claims is greater than expected.

The Scheme's strategy seeks to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years and, as such, it is believed that this reduces the variability of the outcome. The strategy is set out in the annual business plan, which specifies the benefits to be provided by each option, the preferred target market and demographic split thereof.

All the contracts are annual in nature and the Scheme has the right to change the terms and conditions of the contract at renewal. Management information including contribution income and claims ratios by option, target market and demographic split, is reviewed monthly. There is also a program that regularly reviews contractual premium and benefit data to ensure adherence to the Scheme's objectives.

Medical insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated.

The Scheme cedes medical insurance risk to limit exposure to underwriting losses under various agreements that cover individual risks and defined blocks of risk, on a co-insurance, yearly renewable term. These risk transfer arrangements spread the risk and minimise the effect of losses. The amount of each risk retained depends on the Scheme's evaluation of the specific risk, subject in certain circumstances, to maximum limits based on characteristics of coverage. According to the terms of the capitation agreements, the suppliers provide certain minimum benefits to Scheme members on various benefit options, as and when required by the members. The Scheme does, however, remain liable to its members with respect to ceded medical insurance if any capitation provider fails to meet the obligations it assumes. When selecting a capitation provider the Scheme considers its stability from public rating information and from internal investigations.

The following table summarises the concentration of medical insurance risk on a beneficiary level, with reference to the net carrying amount of the medical insurance claims incurred in respect of the 2008 financial year, by age group and in relation to the type of risk covered or benefits provided. Where appropriate prescribed minimum benefits (PMB) and non-PMB claims have been split.

NAMPAK SA MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 December 2008

19. INSURANCE RISK MANAGEMENT (continued)

	Hospital (major medical)		Chronic		Day to day	Total
	PMB	Non PMB	PMB	Non PMB		
	R	R	R	R		
2008						
Age grouping (in years)						
< 26	5,160,411	7,195,128	548,213	158,684	2,205,693	15,268,129
26 - 35	4,229,052	4,078,859	393,380	112,328	989,758	9,803,377
36 - 50	10,058,964	10,685,322	2,793,337	267,771	3,825,975	27,631,369
51 - 65	13,768,519	8,206,106	5,260,028	682,251	5,161,936	33,078,840
> 65	12,464,049	5,094,386	3,803,556	463,299	3,087,408	24,912,698
Total amount	45,680,995	35,259,801	12,798,514	1,684,333	15,270,770	110,694,413
	Hospital (major medical)		Chronic		Day to day	Total
	PMB	Non PMB	PMB	Non PMB		
	R	R	R	R		
2007						
Age grouping (in years)						
< 26	4,095,916	9,178,877	469,446	145,263	2,512,525	16,402,027
26 - 35	2,939,198	4,727,955	335,323	99,925	975,833	9,078,234
36 - 50	5,821,557	13,337,195	2,427,310	251,958	3,656,216	25,494,236
51 - 65	7,211,668	13,161,426	4,836,473	442,183	4,772,380	30,424,130
> 65	7,234,777	9,951,464	3,648,778	313,941	3,009,482	24,158,442
Total amount	27,303,116	50,356,917	11,717,330	1,253,270	14,926,436	105,557,069

Reconciliation of net claims to current year claims paid in Note 9:

	2008	2007
	R	R
Total net claims as above	110,694,413	105,557,069
Prior year claims paid	6,763,772	7,968,996
RAF claims recoveries and adjustments	(31,287)	(464,573)
Claims paid from savings plan accounts	12,805,028	12,471,321
	<u>130,231,926</u>	<u>125,532,813</u>

Hospital (major medical) benefits cover all costs incurred by members whilst they are in hospital receiving preauthorised treatment for certain medical conditions. Chronic benefits cover the cost of certain prescribed medicines consumed by members for chronic conditions/diseases, such as high blood pressure, cholesterol and asthma. Day-to-day benefits cover the cost of all out of hospital medical attention, such as visits to general practitioners and dentists as well as prescribed non-chronic medicines.

Claims development

Claims development tables are not presented since the uncertainty regarding the amount and timing of claim payments is typically resolved within one year.

20. FINANCIAL RISK MANAGEMENT

Interest Rate Risk

Interest rate risk is the exposure that the Scheme has to changes in interest rates. This is not a significant risk to the Scheme as it holds no debt for the exception of the member's saving liability on which interest is paid. The main exposure to the Scheme would be a reduction in interest income on investments if interest rates were to decrease. In order to reduce the impact of any potential interest rate changes, the Scheme holds a diversified portfolio of investments, both long and short term.

Currency risk

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

The Scheme operates in South Africa and therefore its cash flows are denominated in South African Rand (ZAR). The Scheme is not directly exposed to currency risk in relation to investments as all are denominated in South African Rand, and the diversified investment strategy currently precludes any foreign investments. As a result of the unbundling of Remgro and Richemont, the Scheme now holds shares in British American Tobacco and these shares are held in a foreign currency. The result of this is that only 2% of the Scheme's investments are denominated in foreign currency and the Scheme's exposure to currency risk is considered immaterial. Refer to note 23 for details of this non-compliance.

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

#### 20. FINANCIAL RISK MANAGEMENT (continued)

The table below summarises the Scheme's exposure to interest rate risks. Included in the table are the Scheme's investments in interest bearing instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month R	1 - 3 months R	Total R
As at 31 December 2008			
Cash and cash equivalents	9,762,517	28,351,453	38,113,970
Investments held at fair value through the income statement	-	84,648,935	84,648,935
Total	9,762,517	113,000,388	122,762,905
As at 31 December 2007			
Cash and cash equivalents	14,079,803	31,808,456	45,888,258
Investments held at fair value through the income statement	-	52,943,418	52,943,418
Total	14,079,803	84,751,874	98,831,676

If interest rates increased by 1%, assuming all other variables remain constant, and the recent past is predictive of the future, the impact on return on investment and the resulting impact on the surplus of the Scheme is as follows:

	2008 R	2007 R
Increase in investment income	583,305	654,296

#### Credit Risk

The Scheme has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and members.

The Scheme's credit risk is primarily attributable to trade and other receivables. The amounts presented in the balance sheet are net of allowances for possible impairment losses, estimated by the Scheme'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 assigned by international credit rating agencies.

	2008 R	2007 R
Trade and other receivables	2,398,509	682,829
Fully performing	47,912	4,161
Past due but not impaired	99,842	406,020
Past due and impaired	2,546,263	1,093,010
Provision for impairment of trade and other receivables	(99,842)	(406,020)
Trade and other receivables (Note 2)	2,446,421	686,990

For detailed explanation of impairment procedures for the scheme, refer Note 18.

Analysis of past due but not impaired	40,419	-
< 30 days	7,493	4,161
Between 30 and 60 days	47,912	4,161

#### Market Risk

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

Equities are reflected at market values, which are susceptible to fluctuations. The Scheme manages its equity risk by employing the following procedures:

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

- mandating a specialist fund manager to invest in equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce risk. Diversification is guided by the Medical Schemes Act; and
- considering the risk-reward profile of holding equities and bearing the risk in order to obtain higher expected returns on assets.

Should the South African bond and equities markets rise by 4% (2007 : 5%), assuming all other variables remain constant, and the recent past is predictive of the future, the impact on the market value of the Scheme would be as follows:

	2008 R	2007 R
Bonds	188,044	1,804,654
Equity	2,345,286	1,601,218

# NAMPAK SA MEDICAL SCHEME

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS for the year ended 31 December 2008

### 20. INSURANCE RISK MANAGEMENT (continued)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents by monitoring the availability of funding through liquid-holding cash positions with various financial institutions. This ensures that the Scheme has the ability to fund its day-to-day operations.

The table below analyses the assets and liabilities of the Scheme into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date:

	Up to 1 month R	1 - 3 months R	3 - 12 months	Interest Adjustment R	Total R
As at 31 December 2008					
Current Assets	12,506,319	113,182,653	52,005,554	(479,645)	177,214,881
Trade and other receivables	2,446,422	-	-	-	2,446,422
Investments held at fair value through the income statement	-	84,648,935	52,005,554	-	136,654,489
Cash and cash equivalents	10,059,897	28,533,718	-	(479,645)	38,113,970
Current liabilities	7,322,864	2,733,634	28,528,251	(2,395,044)	36,189,705
Trade and other receivables	1,500,367	-	-	-	1,500,367
Savings plan liability	908,542	1,640,387	27,540,275	(2,395,044)	27,694,160
Outstanding claims provision	4,913,955	1,093,247	987,976	-	6,995,178
Net positive liquidity	5,183,455	110,449,019	23,477,303	1,915,399	141,025,176
As at 31 December 2007					
Current Assets	15,062,230	84,780,397	65,454,644	(323,960)	164,973,311
Trade and other receivables	686,990	-	-	-	686,990
Investments held at fair value through the income statement	-	52,943,418	65,454,644	-	118,398,062
Cash and cash equivalents	14,375,240	31,836,979	-	(323,960)	45,888,259
Current liabilities	8,025,384	2,965,614	27,633,181	(2,079,288)	36,544,891
Trade and other receivables	1,630,726	-	-	-	1,630,726
Savings plan liability	1,014,869	1,818,208	26,715,995	(2,079,288)	27,469,781
Outstanding claims provision	5,379,789	1,147,406	917,189	-	7,444,384
Net positive liquidity	7,036,846	81,814,783	37,821,463	1,755,328	128,428,420

#### Fair value estimation

The fair value of publicly traded financial instruments held as held-for-trading, is based on quoted market prices at the balance sheet date.

	2008		2007	
	Carrying amount R	Fair Value R	Carrying amount R	Fair Value R
Investment held at fair value through the income statement	136,654,489	136,654,489	118,398,062	118,398,062
Cash and cash equivalents	38,113,970	38,113,970	45,888,259	45,888,259
Trade and other receivables	2,446,422	2,446,422	686,990	686,990
Savings plan liability	27,694,160	27,694,160	27,469,781	27,469,781
Trade and other payables	1,500,367	1,500,367	1,630,726	1,630,726

At year-end the carrying amounts approximate their fair values due to the short-term maturities of these assets and liabilities.

#### Capital Adequacy Risk

This represents the risk that there are insufficient reserves to provide for adverse variations on actual and future experience. The Scheme defines its capital as accumulated funds as detailed in the statement of changes in funds. The Scheme manages its capital to ensure that it will be able to continue as a going concern as well as meet the solvency ratio of 25%, as regulated by the Medical Schemes Act of 1998. The Scheme had R141 million (2007: R128 million) of accumulated funds at 31 December 2008, which translated to an accumulated funds ratio of 74.4% (2007: 72.0%).

## NAMPAK SA MEDICAL SCHEME

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2008

#### 21. FIDELITY COVER

The Scheme participated in fidelity insurance and professional indemnity cover provided by Momentum Medical Scheme Administrators (Pty) Ltd, on behalf of all the schemes it administered, amounting to R200 million (2007: R200 million).

#### 22. CONTINGENT ASSETS

The Scheme has approximately R3 million (2007: R2.6 million) in recoveries outstanding from the Road Accident Fund (RAF) for claims paid on behalf of members. The general likelihood of recovery of these amounts is remote, and the Trustees have elected not to recognise a debtor on the balance sheet as any future recoveries are highly contingent on a multitude of factors. The Trustees consider, based on past experience and the current financial stability of the RAF, that the debtor, were it to be recognised would be fully impaired.

#### 23. NON-COMPLIANCE MATTERS

The Trustees are of the opinion that there are no material deviations from the Act. However, not all premiums are received within 3 days as prescribed by the Act but there are sufficient credit control policies to minimise the risk of recoverability. This risk is considered insignificant.

Claims are generally paid within 30 days of receipt but due to certain procedures such as clinical auditing, there are exceptions where certain claims are only paid after 30 days of receipt. The Scheme has acknowledged that since it only applies to a small percentage of claims where such procedures are necessary to validate claims, this risk is considered insignificant.

As a result of the unbundling of Remgro and Richemont, the Scheme now holds shares in British American Tobacco. As these shares are categorised as "shares held in territories outside of the Republic" in terms of Annexure B of the Act, this is an unintentional contravention of the Act. As the shares form part of a pooled portfolio of investments, the Scheme is unable to dispose of its holding and has therefore applied to the Council for Medical Schemes for exemption from the provisions of Annexure B of the Act within the 30 January 2009 deadline as stipulated in Circular 38 of 2008. The Scheme's intention is to dispose of these shares within 24 months due to current market conditions and the uncertainty of when conditions would improve. This has been communicated to Council.

#### 24. TRUSTEE EXPENSES

	Travel	Fees for meetings	Total
	R	R	R
2008			
A Hanson	12,339	-	12,339
Z Dingezweni	2,414	-	2,414
D Thomas	2,651	-	2,651
L Haripersad	3,187	-	3,187
M Browne	-	7,000	7,000
J Morrow	-	17,500	17,500
K Ntshangase	11,258	-	11,258
	<u>31,849</u>	<u>24,500</u>	<u>56,349</u>
2007			
A Hanson	14,555	-	14,555
C Mkatshwa	11,959	-	11,959
L Haripersad	1,861	-	1,861
M Browne	-	21,000	21,000
J Morrow	-	17,500	17,500
V Shiluvana	4,019	-	4,019
	<u>32,394</u>	<u>38,500</u>	<u>70,894</u>

NAMPAK SA MEDICAL SCHEME

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
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25. SURPLUS FROM OPERATIONS PER BENEFIT OPTION

2008	STANDARD OPTION R	EXTENDED OPTION R	TOTAL SCHEME R
Net contributions	48,947,044	82,476,317	131,423,361
Relevant healthcare expenditure			
Net claims incurred	(37,405,848)	(79,665,331)	(117,071,179)
Net expense on risk transfer arrangement	24,409	(74,461)	(50,052)
Risk on transfer arrangement expenses	(191,451)	(209,411)	(400,862)
Recoveries from risk transfer arrangements	215,860	134,950	350,810
Gross healthcare result	11,565,605	2,736,525	14,302,130
Managed care: management services	(1,141,894)	(1,216,405)	(2,358,299)
Administration expenses	(5,087,655)	(5,419,636)	(10,507,291)
Net impairment losses on healthcare receivables	(22,072)	(23,511)	(45,583)
Net healthcare result	5,313,984	(3,923,027)	1,390,956
Other income	4,855,374	9,424,055	14,279,429
Other expenditure	(397,738)	(2,675,892)	(3,073,630)
Net surplus for the year	9,771,620	2,825,136	12,596,756
Number of members	2,498	2,661	5,159

2007	STANDARD OPTION R	EXTENDED OPTION R	TOTAL SCHEME R
Net contributions	44,763,019	80,626,188	125,389,207
Relevant healthcare expenditure			
Net claims incurred	(34,497,160)	(78,466,349)	(112,963,509)
Net expense on risk transfer arrangement	(52,876)	(30,007)	(82,883)
Risk on transfer arrangement expenses	(180,489)	(208,612)	(389,101)
Recoveries from risk transfer arrangements	127,613	178,605	306,218
Gross healthcare result	10,212,983	2,129,832	12,342,815
Managed care: management services	(1,003,837)	(1,128,434)	(2,132,271)
Administration expenses	(4,738,486)	(5,326,630)	(10,065,116)
Net impairment losses on healthcare receivables	5,602	6,298	11,900
Net healthcare result	4,476,262	(4,318,934)	157,328
Other income	6,287,009	11,173,368	17,460,377
Other expenditure	(787,757)	(2,772,730)	(3,560,487)
Net surplus for the year	9,975,514	4,081,704	14,057,218
Number of members	2,417	2,717	5,134