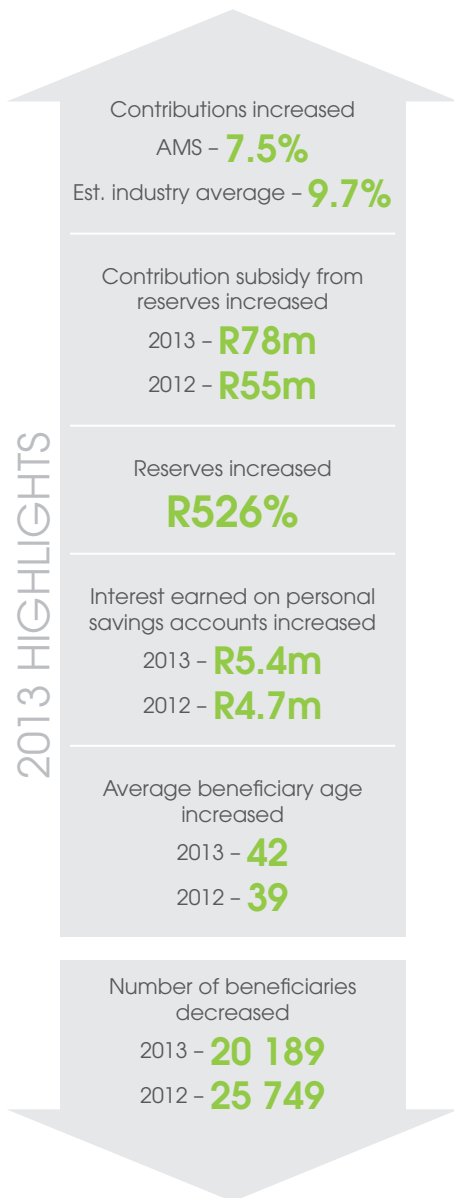


MEDI BRIEF

SPECIAL EDITION: ANNUAL FINANCIAL STATEMENTS FOR 2013: COMMENTARY

APRIL 2014

2013 HIGHLIGHTS



The Board of Trustees is responsible for preparing Anglo Medical Scheme's Annual Financial Statements (AFS) in accordance with International Financial Reporting Standards and the requirements of the Medical Schemes Act.

A word from the Board

We believe that in preparing the AFS, we have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. We are also satisfied that the information contained in the AFS fairly presents the results of operations and cash flows for the year, and the financial position of the Scheme at the end of last year.

In addition, the Trustees are responsible for all other information included in the Board of Trustees report, for its accuracy and consistency with the AFS and for ensuring the AFS comply with the relevant legislation.

Anglo Medical Scheme operates in a well-established control environment, which is comprehensively documented and regularly reviewed. This incorporates risk management and internal control procedures that are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled. No event or item has come to our attention that indicates any material breakdown in the functioning of the key internal controls and systems during the year under review.

The AFS were prepared using the going concern basis, as we have no reason to believe the Scheme will not be a going concern in the foreseeable future, based on forecasts, actuarial calculations and available cash resources.

Anglo Medical Scheme is committed to the principles and practice of fairness, openness, integrity and accountability in all dealings with its stakeholders. The code of corporate practices and conduct as set out in King III on Corporate Governance has been applied, and the Scheme's external auditors have audited the AFS in terms of International Standards on Auditing.

The AFS were approved by the Board of Trustees on 31 March 2014 and were signed on its behalf by:

DD Barber
Chairman

MA du Bois
Vice-Chairman

FK Robertson
Principal Officer

OUR 2013 TRUSTEES

Member elected

Dave Barber (DD)(Chairman)
Marcelle Graham (MD)
Mary Farrell (MR)
Philip Laubscher (PA)
Campbell Mckie Thomson (CC)
Gavin Preston (G)

Employer appointed

Medwyn du Bois (MA)(Vice-Chairman)
Colleen Elliott (CC)
Dr Frank Fox (FH)
Darren Ghavalas (G)
Grant Howell (GAE)
Saleh Mayet (S)

ALTERNATE TRUSTEES IN 2013

Member elected

Sharon (S) Hosking
James (J) Liston
Phillip (P) Chetty
Lin (L) Sanford
Bernie Switala (BS)

Employer appointed

Palesa (P) Vatsha
Joanna (J) Stanley
Alvin (A) Masarira
Johan Troskie (JCT)
Dr Brian Brink (BAB)

Executive summary

2013 saw the loss of membership as a result of the disposal of Scaw Metals by Anglo American. Nevertheless, Anglo Medical Scheme's healthy balance sheet and strong investment portfolio has comfortably sustained its ability to deliver lifelong quality products that are competitive and cost effective.

The balance sheet for the Anglo Medical Scheme showed a gain of over R75 million for 2013, despite a 17.4% decline in membership as a result of the disposal of Scaw Metals. The loss of 1,730 active members and the retention of Scaw Metals pensioners on the Scheme significantly changed the Scheme's membership profile, raising the beneficiary pensioner ratio to 24.1% and the average beneficiary age to 41.6 years.

Notwithstanding the drop in membership and the resulting decline in risk contribution income, coupled with a lower investment income in 2013 thanks to volatile market conditions,

Anglo Medical Scheme still achieved a profit of R90.6 million. Furthermore, the value of the held for trading investments experienced a strong growth of R115.8 million during the year under review and its fair value at the end of the year included a 200% increase in unrealised gains to R76.7 million.

While the Scheme's ageing membership profile has increased the overall liability of providing adequate healthcare benefits to members at market related rates, its sound investment strategy has mitigated this risk. The reserve ratio grew to a powerful 526%, by far in excess of minimum legal requirement (25%). Anglo Medical Scheme can thus comfortably accommodate the rise in claims incurred set against the drop in medical risk income. The good news is that the Scheme has sufficient reserves and projected investment returns to meet this requirement up until 2042. Thereafter the investment income will not sustain the increasing costs and assets that need to be sold to cover the shortfall.

How your plan performed

All three plans – Managed Care Plan (MCP), Standard Care Plan (SCP) and Value Care Plan (VCP) – showed a net surplus for the year. The Scheme targets a breakeven operating position after expenses and the inclusion of the drawdown from the reserves. Medicine costs across all three plans were well-managed, while MCP and SCP saw some cost increases, notably theatre costs, in-hospital and pathology costs. These were largely as a result of increased cancer diagnoses and treatment, and high neonatal costs. Specialist costs increased across both these plans.

The claims ratio, the gap between the amount paid out in claims and the amount received in contributions, widened as the Scheme drew funds from the reserves to cover increasing costs. The MCP's claims ratio increased from 106% to 112% and the SCP's from 98% to 100%. Generally, claims ratios may not exceed 90%; the balance of the contributions funds the administration of a scheme (2012 industry average: 87.7% – CMS annual report). However, AMS draws funds out of its reserves to cover the shortfall instead of increasing contributions.

NET HEALTHCARE CLAIMS VS NET CONTRIBUTIONS



Funds per member: 2012 vs 2013

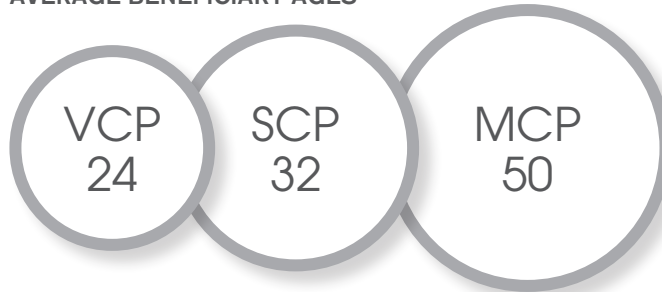
There was an increase in the interest earned on members' 2013 savings accounts, from R4.72 million to R5.38 million, as a result of the increase in the total savings balances at the end of 2013 – from R96.25 million to R100.9 million.

Our membership

In 2013 the Scheme provided benefits to 9 356 members and 20 493 beneficiaries, located primarily in Gauteng (44%), KwaZulu-Natal (32%) and Western Cape (10%). The balance of membership was spread across South Africa. Funds per member increased to R264 240 (2012: R212 847) and per beneficiary to R122 249 (2012: R94 004) at the end of the accounting period.

The Scheme membership demographics changed significantly in 2013 as a result of the disposal of Scaw Metals by Anglo American. This resulted in the loss of 1 730 active members and the retention of the pensioners.

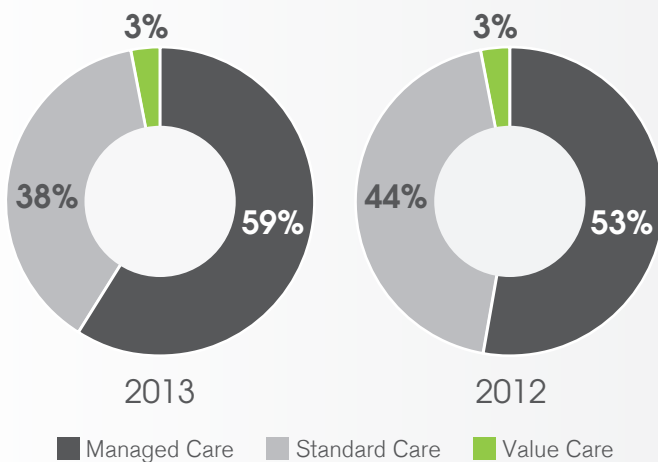
AVERAGE BENEFICIARY AGES



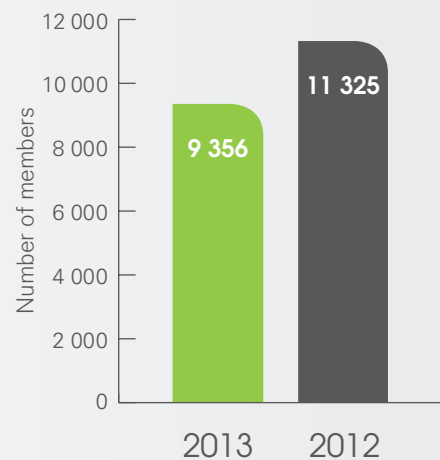
The loss of Scaw members combined with the normal Scheme attrition resulted in:

- An increased beneficiary pensioner ratio to 24.1% (2012: 18.7%)
- An increased beneficiary age to 41.6 years (2012: 39.4 years)
- A decrease in the Managed Care Plan (MCP) membership by 8.8%
- A decrease in the Standard Care Plan (SCP) by 28.7%

CHANGE IN MEMBERSHIP BY PLAN



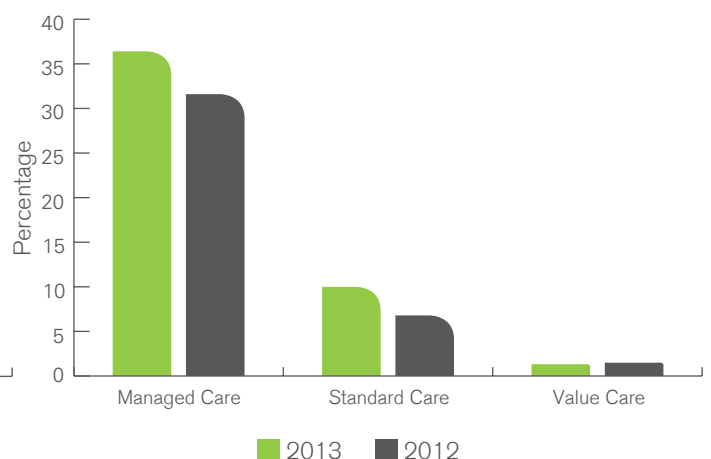
CHANGE IN TOTAL MEMBERSHIP



AVERAGE AGE OF BENEFICIARIES



PENSIONER RATIO (BENEFICIARIES > 65)



ACCUMULATED FUNDS	2013 R'000	2012 R'000
Total members' funds per Statement of Financial Position	2 511 157	2 420 498
Less: Reserve for unrealised investment gains	(281 340)	(204 635)
Accumulated funds per Regulation 29 of the Act	2 229 817	2 215 863
Annual contribution income per Statement of Comprehensive Income	423 654	469 127
Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100 (incl unrealised gains)	592.7%	517.9%
Accumulated funds ratio calculated as the ratio of accumulated funds/gross annual contributions x 100 (excl unrealised gains)	526.3%	472.3%
Minimum ratio required by Regulation 29 of the Act	25.0%	25.0%

Managing your investment

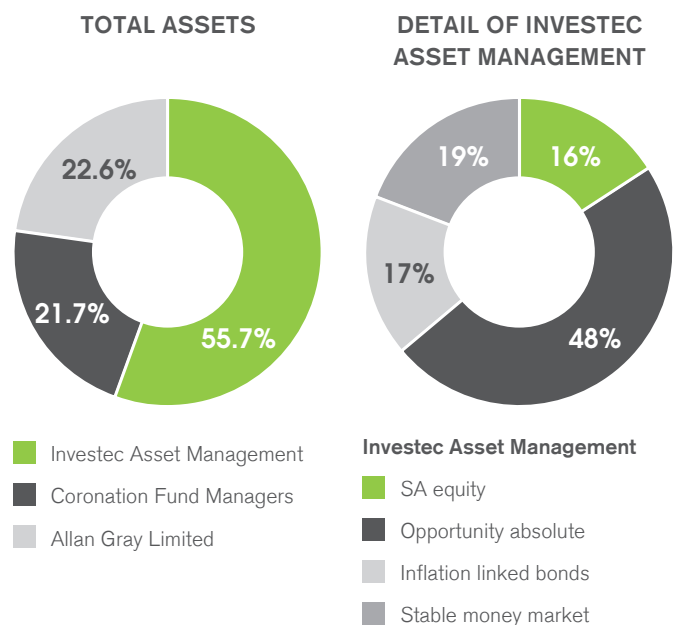
The Board oversees the Scheme's investment strategy, and has appointed an Investment Committee to establish, manage and monitor this strategy in compliance with the Medical Schemes Act. The Committee is mandated by the Board to manage the Scheme's primary investment objective – earning a sufficient investment return in excess of inflation over the longer term.

The Committee believes that risk should be managed, in part, by holding a diversified portfolio, with a significant proportion of the assets providing returns that offer protection against inflation over the longer term. In appointing active managers, the Committee selects research-orientated managers with a long-term focus on assessing the intrinsic value of assets or buying shares with strong 'value' characteristics (i.e. low price/earnings ratio, high dividend yield and low price to book ratio).

Member savings account liabilities are ring-fenced separately to be explicitly matched with cash and held in trust by the Scheme on behalf our members.

STATEMENT OF CHANGES IN ACCUMULATED FUNDS

	Accumulated funds R'000
Balance as at 1 January 2012	2 242 769
Total comprehensive income for the year ended 2012	177 729
Balance as at 31 December 2012	2 420 498
Total comprehensive income for the year ended 2013	90 659
Balance as at 31 December 2013	2 511 157



Member savings liability

Investec Asset Management

Mandate

Stable money market: 100%



CURRENT LIABILITIES

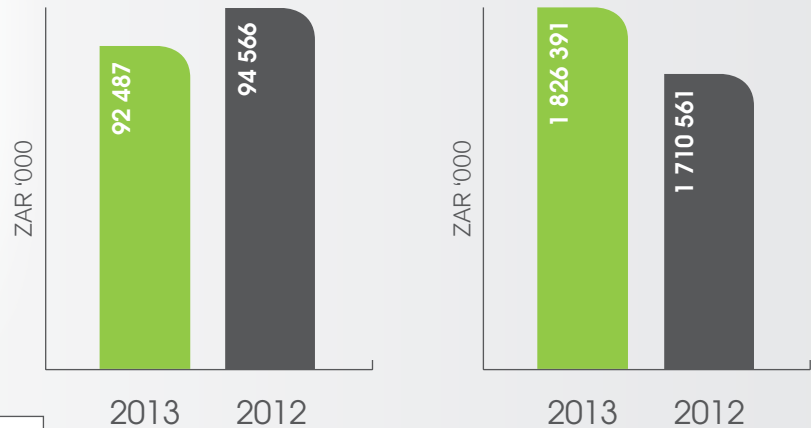
The second significant impact of the disposal of Scaw Metals by Anglo American was the increase in the reserving ratio from December 2012 to December 2013, from 472% to 526% (excluding unrealised gains). This ratio is expressed as a percentage of the total accumulated funds divided by the total annual contributions. With fewer members, the ratio increases.

The level of accumulated funds could cover 6.4 years – an increase from the 2012 figure of 5.8 years – of claims costs incurred for the year without the receipt of any contribution income. The Trustees believe that this cover exceeds the Scheme's present needs.



Current assets

HELD-TO-MATURITY INVESTMENTS HELD-FOR-TRADING INVESTMENTS



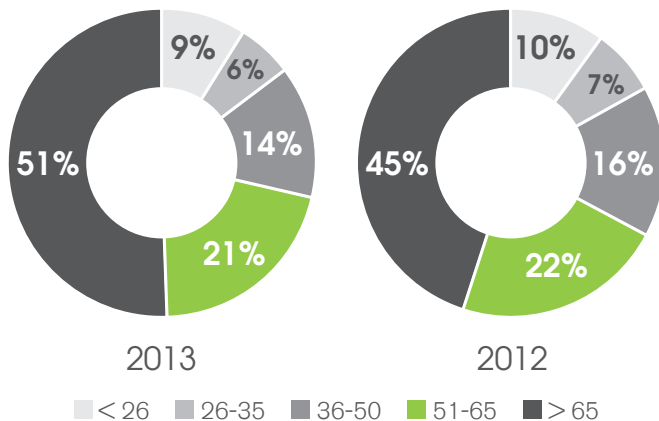
Non-healthcare costs

The sum of administration and managed care costs as a percentage of the net contributions was 10%. The Trustees work hard to ensure the figure remains as close to or below the 10% mark. Due to the decline in membership and consequent reduction in contribution income, the fixed non-healthcare costs have proportionally increased.

Managing claims (insurance) risk

The primary insurance activity undertaken by the Scheme assumes the risk of paying all healthcare related costs incurred by members in return for contributions received. These risks relate to the cost of providing healthcare services to the Scheme members. The Scheme is also exposed to market risk through its insurance and investment activities. The Board of Trustees maintains a schedule of identified risks to the Scheme and has evaluated both the likelihood and impact of these risks. This list is reviewed on an ongoing basis and action is taken as and when is necessary.

SUMMARY OF CLAIMS (INSURANCE) RISK (AGE GROUPING)



Risk transfer arrangements

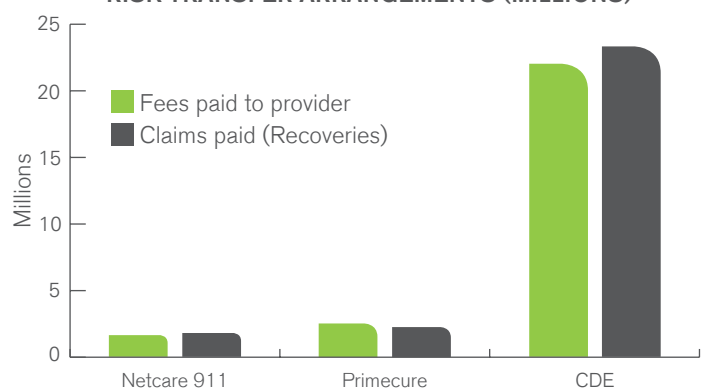
The Scheme has entered into a limited number of risk sharing agreements with various service providers to spread the risk and minimise losses.

The Scheme remains liable to its members to provide these services in the event that the capitation provider fails to meet its obligations.

Every year we partner with industry specialists to provide our members with access to the best available healthcare services. In 2013 these partners included Netcare 911 (land and air ambulance services for Managed Care and Standard Care members); Prime Cure (primary healthcare services and hospital benefits to Value Care members); and the Centre for Diabetes and Endocrinology (management and treatment of type 1 and type 2 diabetes, including diabetes-related hospital costs for Managed Care and Standard Care members).

The total net benefit of these arrangements increased to R932 000 (2012: R150 000).

RISK TRANSFER ARRANGEMENTS (MILLIONS)



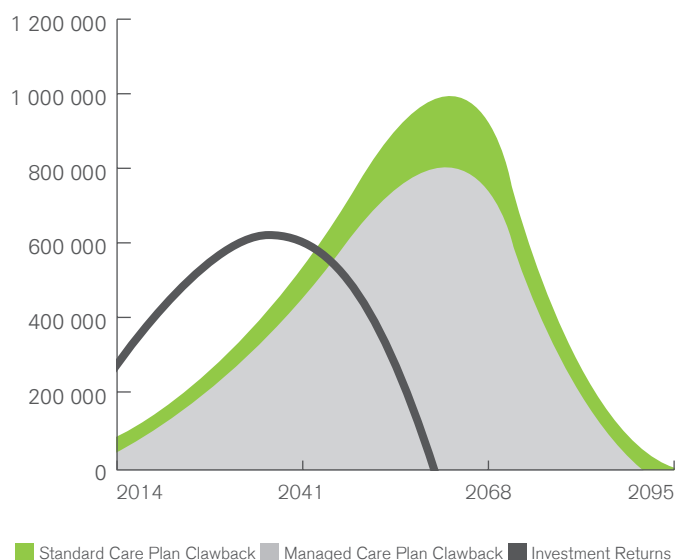
Scheme reserves: long-term strategy

The Scheme's significantly higher beneficiary pensioner ratio (24.1%) than the industry average (7.2% - CMS report September 2013; the MCP percentage is 36.4%, SCP is 10.0% and VCP, 1.3%) increases the overall liability of providing adequate healthcare benefits at market related rates to our members.

The value of the Scheme's total long-term assets as at 31 December 2013 was R2.51 billion, compared to its gross long-term actuarial liability valuation of R2.67 billion. After allowing for expected medical costs relating to the ageing membership profile, the Scheme was 94% funded. This funding level makes allowance for the future funding of age-related contribution increases of all current Scheme members.

In order for the Scheme to continue delivering lifelong, quality products that are market competitive and cost effective, an additional sum of money is required to fund member contributions. The key principle of the long-term funding strategy is that this money is provided by the reserves in the form of a clawback. An amount is budgeted annually to provide for the shortfall between the budgeted risk contribution income and claims incurred. The investment returns are currently sufficient to meet the clawback, while the level of reserves is expected to be sufficient to cover the clawback over a long period. The clawback is projected to exceed investment return from 2042 onwards.

INVESTMENT RETURNS EARNED AGAINST THE CLAWBACK REQUIRED BY PLAN OVER THE LIFE EXPECTANCY OF THE MEMBERSHIP



Relaxation of regulatory requirements

Investment in participating employer

Section 35(8) (a) of the Medical Schemes Act 131 of 1998 states that a medical scheme shall not invest any of its assets in a participating employer.

The Scheme was exposed to participating employer shares which constituted approximately 4.35% of total assets.

The Scheme has applied to the Council for Medical Schemes and received an exemption from this section of the Medical Schemes Act.

Investment in administrator

Section 35(8) (c) of the Medical Schemes Act 131 of 1998 states that a medical scheme shall not invest any of its assets in any administrator.

The Scheme invests in pooled investment vehicles which allow investment managers discretion to invest in a combination of shares and bonds that will best achieve their stipulated benchmark.

The Scheme has applied to the Council for Medical Schemes and received an exemption from this section of the Medical Schemes Act.

Investment limitations

Regulation 30(3) states that a medical scheme shall not invest more than 40% of its assets in local equities. The Scheme exceeded this limit throughout the year.

The Scheme submitted a certified statement prepared by its consultants to the Council for Medical Schemes to state that an alternative percentage of 75% should apply to the excess assets as described in Regulation 30(3).

The trustees are of the opinion that there are no material deviations from the Act.

BALANCE SHEET

	2013 R'000	2012 R'000
ASSETS		
Non-current assets		
Held-to-maturity investments	92 487	94 566
Current assets	2 547 753	2 469 897
Held-for-trading investments	1 826 391	1 710 561
Trade and other receivables	6 761	12 375
Cash and cash equivalents	613 746	652 395
Investment of member's medical savings accounts	100 855	94 566
Total assets	2 640 240	2 564 463
FUNDS AND LIABILITIES		
Members' funds		
Accumulated funds	2 511 157	2 420 498
Current liabilities	129 083	143 965
Personal medical savings accounts	100 313	96 257
Trade and other payables	4 631	15 076
Outstanding risk claims provision	24 139	32 632
Total funds and liabilities	2 640 240	2 564 463

INCOME STATEMENT

	2013 R'000	2012 R'000
Risk contribution income	358 454	402 120
Relevant healthcare expenditure		
Risk claims incurred	(382 797)	(419 005)
Claims incurred	(355 410)	(392 312)
Third party claim recoveries	(27 387)	(26 693)
Net recovery on risk transfer arrangements	932	150
Recovery on risk transfer arrangements	27 387	26 693
Risk transfer arrangement premiums paid	(26 455)	(26 543)
Gross healthcare result	(23 411)	(16 735)
Managed care: management services	(6 600)	(7 330)
Administration expenses	(28 312)	(28 185)
Net impairment losses on healthcare receivables	(236)	(186)
Net healthcare result	(58 559)	(52 436)
Other income	168 290	249 115
Investment income	80 425	155 136
Unrealised gains on held-for-trading investments	76 705	38 185
Sundry income	5 773	51 067
Interest received on member's savings accounts	5 387	4 727
Other expenditure	(19 072)	(18 950)
Interest paid on member's savings accounts	(5 387)	(4 727)
Asset management fees	(13 685)	(14 223)
Net surplus for the year	90 659	177 729
Other comprehensive income	-	-
Total comprehensive income for the year	90 659	177 729

Related party transactions

As the Scheme's administrators, Momentum Medical Scheme Administrators, a subsidiary of Metropolitan Health, participated in and influenced the financial and operating policy decisions of the Scheme. It received from the Scheme a market-related administration fee for administration and managed care services provided. In the current year, these amounted to R24 698 518 (2012: R27 122 838). The amount owing to the administrator at year-end was R1 994 545 (2012: R2 298 518).

Anglo Operations receives from the Scheme a market-related reimbursement for head office rental and management services provided of R145 790 (2012: R127 600). The amount owing to Anglo American at year-end was R18 930 (2012: R81 084).

The Anglo Medical Scheme is a restricted scheme. The composition of the Board of Trustees includes employer-appointed Trustees. The participating employers' payroll system is primarily utilised in collecting both the members' and the employers' proportionate share of the contributions.

Contributions of R763 264 (2012: R712 976) were received and claims of R756 251 (2012: R1 856 143) were paid in respect of those Trustees who were also members of the Scheme. Such claims were paid in accordance with the rules of the Scheme. The Trustees had savings account balances of R161 067 (2012: R123 787) at the end of the year.

Key management personnel received remuneration of R4 085 812 (2012: R3 293 484) for the attendance of meetings, holding office and disbursements.

Basis of preparation

The AFS were prepared on the historical cost convention with the exception of investments classified as held-for-trading, which are carried at fair value through profit or loss. Investments which are held-to-maturity are held at amortised cost.

A stamp of approval from the auditors

External auditors, Deloitte and Touche, certified that our AFS accurately reflected the financial position of the Scheme, its financial performance and its cash flows as at 31 December 2013.



WANT THE FULL REPORT?

This special edition of MediBrief is a commentary on our 2013 Annual Financial Statements. There are extensive notes in our AFS that have not been included in this edition. If you would like a full set of financials with additional notes in terms of our investment disclosures, get in touch with us:

Visit our website: www.angloms.co.za and download the full report



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