

NOTICE IS HEREBY GIVEN THAT THE 14<sup>TH</sup> ANNUAL GENERAL MEETING OF



**Medical scheme**

**WILL BE HELD ON WEDNESDAY, 19 MAY 2010, AT 13:00 IN THE MAIN BOARDROOM, SECOND FLOOR,  
CORPORATE BUILDING, PICK N PAY OFFICE PARK, 101 ROSMEAD AVENUE, KENILWORTH**

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**AGENDA**

1. Notice convening the Annual General Meeting
2. Minutes of the Annual General Meeting held on Wednesday, 20 May 2009
3. Annual Report of the Chairperson of the Board of Trustees for the year ended 31 December 2009
4. Adoption of the Annual Financial Statements for the year ended 31 December 2009
5. Confirmation of the Disputes Committee  
The current Disputes Committee comprises:  
Mr J Lucas  
Ms M Mannion  
Mr Y Mola  
Mr M Marsden
6. Election of the external auditor for the ensuing year  
Current External Auditor: KPMG Inc
7. Any other business of which due notice has been given on or before Wednesday, 12 May 2010

By order of the Board of Trustees

**AMILE VISSER**  
PRINCIPAL OFFICER

## **PICK N PAY MEDICAL SCHEME CHAIRPERSON'S REPORT**

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I am pleased to report that once again Pick n Pay Medical Scheme maintained its strong financial performance during the last year whilst continuing to offer its members benefit enhancements and keeping contribution increases to a minimum.

The past year has not been without its challenges and the impact of these have been felt by our members, service providers and my colleagues on the Board of Trustees.

From a legislative point of view, a task team has recently been appointed to focus on prescribed minimum benefits and we look forward to receiving their feedback and recommendations within the next couple of months. A national HIV Counselling and Testing Campaign has also been announced by the Minister of Health and he has called on all medical schemes to support the campaign by providing benefit cover for schemes' beneficiaries. Pick n Pay already provides for these benefits through our HIV Management Programme and as such the Minister has our full support for this campaign.

Another major legislative development that may impact severely on the Pick n Pay Medical Scheme is the establishment of the National Health Insurance (NHI) system. A task team has also been established to work on the NHI and we will keep you, our members, updated on any significant progress that is made in this arena.

Perhaps the biggest impact during the last year for you has been the appointment of our three new managed care providers. Qualsa's contract with the Pick n Pay Medical Scheme ended on 30 June 2009 and, after a review of alternative providers in the market, the following organisations were contracted from 1 July 2009 to provide services to our members:

- Medical Services Organisation (MSO) for hospital pre-authorisation and oncology management;
- Private Health Administrators (PHA) for the management of the health, maternity and HIV management programmes; and
- MediKredit Swift Online for authorisation of chronic medication and prescribed minimum benefit care plans.

Details around the new providers and their processes were published in our newsletters during the course of last year. Should you still not be sure who to contact and when, please refer to our website at [www.pnpms.co.za](http://www.pnpms.co.za) and click on the newsletters tab on the left-hand side for previous issues of the newsletters.

The Board of Trustees had a tough time deciding on the benefit enhancements and contribution increases for this year. As a Board, we have always tried to increase our benefits as generously as we can whilst still keeping the contribution increases to a minimum. This objective of ours was further challenged by the recessionary climate that the global economies faced during 2009. As a result of the good performance of our investment managers, as well as the conservative claiming patterns of our members in general, we were able to announce some nice benefit enhancements for our members. We are also pleased to announce that our preferred provider network of hospitals has been expanded to include not only Life Healthcare, but now also Medi-Clinic, Melomed and National Hospital Network (NHN) hospitals. This means that our members now have an even greater choice of hospitals without having to make a co-payment.

In addition to introducing some new benefits for our members, all the benefit category sub-limits were increased by 8.5% for 2010 and the contributions were increased on average by only 9.8%, depending on family size. Again, these contribution increases were well below those of other schemes in the open market.

The Scheme remains financially sound with a solvency ratio of 81.1% as at 31 December 2009. The Trustees are committed to ensuring the financial viability of the Scheme and will continue their efforts to keep costs to a minimum without compromising the high standard of healthcare. Legislative developments will be monitored closely on an ongoing basis to pre-empt and minimise the impact on the Scheme and its members.

It was with great sadness that we bade farewell to George Jones at the end of March 2010. George has served as the Principal Officer of the Pick n Pay Medical Scheme since February 2001 and retired from the Company on 31 March 2010. George has been an invaluable asset to the Scheme, the Board and our members and he will be sorely missed. We would like to take this opportunity to thank George for his years of dedicated service and the contribution that he has made to the Scheme. We wish him well with his retirement. May there be many happy, healthy years ahead in this new chapter of his life.

We are, however, very privileged and excited to have Amile Visser join us as the new Principal Officer. Amile gained experience as the Financial Manager for Score Supermarkets since September 2002 and has had experience as a Principal Officer of their pension and provident funds. We congratulate Amile on his appointment and look forward to a mutually beneficial relationship.

**PICK N PAY MEDICAL SCHEME  
CHAIRPERSON'S REPORT (CONTINUED)**

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On behalf of the Pick n Pay Medical Scheme, we would like to express our thanks to the following people/organisations:

- the Company for its active support
- our colleagues on the Board of Trustees for their commitment to leadership
- the management and staff at Metropolitan Health Corporate (Pty) Ltd for the efficient manner in which they have managed the day-to-day affairs of the Scheme
- the management and staff at Qualsa Healthcare (Pty) Ltd for their efficient management of our managed care services until 30 June 2009
- the management and staff of our new managed care providers, MSO, PHA and MediKredit, for the efficient manner in which they have managed the managed care programmes since 1 July 2009
- the management and staff of the Centre for Diabetes and Endocrinology (Pty) Ltd for the efficient manner in which they have managed the Diabetes Management Programme
- the medical advisor, Dr Martin Bailey, for his dedication and commitment to the Scheme
- the external auditor, KPMG Inc, for the competent manner in which they conducted their audit
- our actuarial consultants, NMG Consultants and Actuaries, for their invaluable contributions
- Fifth Quadrant Investment Services for their assistance during this year
- the Registrar of Medical Schemes and his staff for their assistance during the year
- all other service providers.

Most importantly, we would like to thank members for their continued efforts in proactively managing their health and wellness, thereby ensuring the financial wellbeing of the Pick n Pay Medical Scheme.

**ERNA VAUSE**  
CHAIRPERSON

**PICK N PAY MEDICAL SCHEME  
ANNUAL REPORT OF THE BOARD OF TRUSTEES**

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The Board of Trustees hereby presents its report for the year ended 31 December 2009.

**Registration number: 1563**

**1. MANAGEMENT**

**1.1 BOARD OF TRUSTEES**

The names of the Trustees in office during the year under review and up to the date of signing this report are:

**Employer appointed**

D Cope	
C Hurst	Resigned: 4 February 2009
M Horney	
G Lea	Appointed: 4 February 2009
I Motaung	

**Member elected**

E Vause (Chairperson)	
M Magnussen	
H de Light	
J Macmillan	Resigned: 4 February 2009
B Grovers	Appointed: 20 May 2009

**1.2 PRINCIPAL OFFICER**

<b>GT Jones</b>	Resigned: 3 February 2010
Pick n Pay Office Park Corporate Building 101 Rosmead Avenue Kenilworth 7700	PO Box 23087 Claremont 7735

<b>A Visser</b>	Appointed: 3 February 2010
Pick n Pay Office Park Corporate Building 101 Rosmead Avenue Kenilworth 7700	PO Box 23087 Claremont 7735

**1.3 REGISTERED OFFICE ADDRESS AND POSTAL ADDRESS**

**Metropolitan Health Corporate (Pty) Ltd**

Town Square	PO Box 4313
61 St George's Mall	Cape Town
Cape Town	8000
8001	

A complete set of the audited Annual Financial Statements can be obtained from the above address.

**1.4 MEDICAL SCHEME ADMINISTRATOR**

**Metropolitan Health Corporate (Pty) Ltd**

Town Square	PO Box 4313
61 St George's Mall	Cape Town
Cape Town	8000
8001	

**PICK N PAY MEDICAL SCHEME  
ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**1. MANAGEMENT (CONTINUED)**

**1.5 INVESTMENT MANAGERS**

**Allan Gray Life Limited**

Granger Bay Court  
Beach Road  
V&A Waterfront  
Cape Town  
8002

PO Box 51318  
V&A Waterfront  
8002

**Investec Asset Management**

100 Grayston Drive  
Sandown  
Sandton  
2196

PO Box 785700  
Sandton  
2146

**1.6 AUDITOR**

**KPMG Inc**

MSC House  
1 Mediterranean Street  
Foreshore  
Cape Town  
8001

PO Box 4609  
Cape Town  
8000

**1.7 ACTUARIAL CONSULTANTS**

**NMG Consultants and Actuaries (Pty) Ltd**

NMG House  
411 Main Avenue  
Randburg  
2125

PO Box 3075  
Randburg  
2125

**1.8 INVESTMENT CONSULTANTS**

**Fifth Quadrant Actuaries and Consultants (Pty) Ltd**

Great Westerford Building  
2nd Floor, Suite 2, South Wing  
240 Main Road  
Rondebosch  
7700

Private Bag X30  
Rondebosch  
7701

**1.9 CAPITATION PROVIDER**

**Centre for Diabetes and Endocrinology (Pty) Ltd**

81 Central Street  
Houghton  
2198

PO Box 2900  
Saxonwold  
2132

**1.10 MANAGED CARE SERVICE PROVIDERS**

**Medical Services Organisation**

Building 14, Healthcare Park  
Woodlands Drive  
Woodmead  
2052

PO Box 1578  
Gallo Manor  
2052

**PICK N PAY MEDICAL SCHEME  
ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**1. MANAGEMENT (CONTINUED)**

**1.10 MANAGED CARE SERVICE PROVIDERS (CONTINUED)**

**MediKredit Integrated Healthcare Solutions (Pty) Ltd**

132 Jan Smuts Avenue Parkwood Johannesburg 2193	PO Box 692 Johannesburg 2193
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**Private Healthcare Administrators**

70 Buckingham Terrace Pharos House Building Westville Durban 3630	PO Box 343 Westville 3630
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**Qualsa Healthcare (Pty) Ltd**

Town Square Building 61 St George's Mall Cape Town 8001	PO Box 4313 Cape Town 8000
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The contract with Qualsa Healthcare (Pty) Ltd was terminated in June 2009.

**2. DESCRIPTION OF THE MEDICAL SCHEME**

The Scheme is a not-for-profit restricted membership medical scheme, registered in terms of the Medical Schemes Act No. 131 of 1998, as amended (the Act).

**2.1 BENEFITS**

The Scheme offers only one option to its members.

**2.2 SAVINGS PLAN**

In order to provide a facility for members of the Scheme to set funds aside to meet future healthcare costs not covered in the benefit option, the Trustees have made a medical spending account available.

25% of total contributions are allocated to a savings account to cover members' day-to-day medical expenses.

Unexpended savings amounts are accumulated for the long-term benefit of the member and interest is paid on credit balances at an interest rate, as determined by the Board of Trustees annually.

The liability to members in respect of the savings plan is reflected as a current liability in the Annual Financial Statements, repayable in terms of Regulation 10 of the Act.

In terms of the rules of the Scheme, the savings plan is underwritten by the Scheme. Members are allowed to use their full savings contribution at any time during the year, even though contributions are paid monthly. The Scheme carries the risk that contributions are not recovered, even though annual savings have been spent.

**3. 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 appropriate risk. The investment strategy takes into consideration constraints both imposed by legislation and by the Board of Trustees. This policy is reviewed annually, taking into consideration compliance with the Act, the risk returns of the various investment instruments and surplus of funds available.

**PICK N PAY MEDICAL SCHEME  
ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

**3. INVESTMENT STRATEGY OF THE MEDICAL SCHEME (CONTINUED)**

The Board of Trustees is responsible for all the investment decisions, and part of its strategy is to ensure that:

- the Scheme remains liquid;
- investments are to be placed so as to be exposed to appropriate risk to earn the best possible rate of return; and
- investments made are in compliance with the regulations of the Act.

The Scheme invested in local equities, international collective investment schemes and cash instruments over the year.

The Scheme's Investment Committee, which comprises Trustees, meets regularly to consider the Scheme's investment strategy and to monitor investment performance and compliance. The committee's decisions are considered and approved by the Board of Trustees. The committee receives guidance from external consultants (Fifth Quadrant) to assist them with investment strategies.

**4. MANAGEMENT OF INSURANCE RISK**

The primary 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 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 insurance and investment activities.

The Scheme manages its insurance risk through benefit limits and sub-limits, approval procedures for transactions that involve pricing guidelines, pre-authorisation, case management and service provider profiling. These methods for mitigating insurance risk are reviewed annually and amended for changes in the Medical Schemes Act and/or changes in the Scheme's ability to accept insurance risk.

The Board of Trustees frequently assesses the necessity to enter into risk transfer arrangements, with the assistance of the Scheme's actuarial consultants.

The Scheme uses several methods to assess and monitor insurance risk exposures, both for individual types of risks insured and overall risks. The principal risk is that the frequency and severity of claims are greater than expected.

Insurance events are by their nature random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

**5. REVIEW OF OPERATIONS**

**5.1 OPERATIONAL STATISTICS**

The results of the Scheme's operations for the year under review at 31 December 2009 are set out in the Annual Financial Statements, and the Trustees believe that no further clarification is required.

	<b>2009</b>	<b>2008</b>
Number of members at year end	7,695	7,416
Average number of members for the year	7,618	7,116
Number of beneficiaries at year end	16,324	15,625
Average number of beneficiaries for the year	16,048	15,005
Proportion of dependants at year end	1.12	1.11
Average age of beneficiaries	29.7	30.0
Pensioner ratio	6.8%	7.5%
Average contributions net of savings per member per month	R1,478	R1,337
Average contributions net of savings per beneficiary per month	R702	R634
Average claims net of savings incurred per member per month	R1,190	R1,118
Average claims net of savings incurred per beneficiary per month	R565	R530

**PICK N PAY MEDICAL SCHEME  
ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

**5. REVIEW OF OPERATIONS (CONTINUED)**

**5.1 OPERATIONAL STATISTICS (CONTINUED)**

	<b>2009</b>	<b>2008</b>
Average administration costs per member per month	R149	R139
Average managed care: Managed services per member per month	R53	R46
Average members' funds per member at year end	R30,409	R25,821
Relevant healthcare expenditure as a percentage of net contributions	80.5%	83.6%
Managed care: Management services as a percentage of net contributions	3.6%	3.4%
Non-healthcare expenses as a percentage of gross contributions*	10.2%	10.4%
Non-healthcare expenditure per beneficiary per month	R96	R88
Amounts paid to Administrator:		
- Administration fees	R10,853,337	R9,201,885
- Managed care fees	R2,055,661	R3,520,646
Investment return	16.7%	-1.7%

\* Non-healthcare expenses include administration and managed care expenses.

**5.2 ACCUMULATED FUNDS RATIO**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
The accumulated funds ratio is calculated on the following basis:		
Total members' funds per balance sheet	233,994,132	191,490,157
Less: Revaluation reserve	(88,034,540)	(61,640,143)
Accumulated funds per Regulation 29 of the Act	<u>145,959,592</u>	<u>129,850,014</u>
Gross contributions	179,992,942	152,061,639
Accumulated funds ratio:		
Accumulated funds/gross contributions x 100%	<u>81.1%</u>	<u>85.4%</u>

**5.3 REVALUATION RESERVE**

The revaluation reserve in the statement of financial position balance sheet reflects the unrealised gains on the Scheme's investment portfolios with Allan Gray and Investec.

**5.4 OUTSTANDING CLAIMS**

Movements on the outstanding claims provision are set out in note 3 to the abridged financial statements. The accuracy of the provision was tested against subsequent settlements.

**6. SUBSEQUENT EVENTS**

No material facts or circumstances have arisen between the date of the statement of financial position and the date of this report which affect the financial position or financial performance of the Scheme, as reflected in these abridged financial statements.

**PICK N PAY MEDICAL SCHEME  
ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

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**7. INVESTMENTS IN AND LOANS TO EMPLOYERS OR MEMBERS OF THE MEDICAL SCHEME AND TO OTHER RELATED PARTIES**

The Scheme holds no investments in and has granted no loans to either the participating employers of the Scheme or other related parties. Refer to note 6 to the abridged financial statements for related party disclosures.

**8. FIDELITY COVER**

The Scheme has a fidelity policy placed through Alexander Forbes, with Guardrisk Insurance Company. The sum insured is R30 million and extends to the Trustees and Principal Officer of the Scheme.

**9. ACTUARIAL SERVICES**

The Scheme's actuaries, NMG Consultants and Actuaries, have been consulted in the determination of the contributions and benefit levels.

**10. COMMITTEES OF THE BOARD OF TRUSTEES**

The following committees are mandated by the Board of Trustees by means of a written terms of reference as to their membership, authority and duties. These committees meet on a regular basis as and when the need arises.

**10.1. RISK AND AUDIT COMMITTEE**

The Risk and Audit Committee operates in accordance with the provisions of the Act. The committee consists of five members of which two are members of the Board of Trustees.

The committee met on the following three occasions during the course of the year:

- 2 April 2009
- 16 July 2009
- 19 November 2009.

The Administrator and the external auditors attend all committee meetings and have unrestricted access to the Chairperson of the committee.

In accordance with the provisions of the Act, the primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the Scheme's accounting policies, internal control systems and financial reporting practices. Further objectives include ensuring that all material risks to which the Scheme is exposed are identified and adequately managed. The external auditor formally reports to the committee on critical findings arising from the audit.

The members of the committee are:

- |                    |                                    |
|--------------------|------------------------------------|
| - A Jakoet         | Chairperson and independent member |
| - P Gerber (Hinde) | Independent member                 |
| - M Magnussen      | Trustee                            |
| - J Schubach       | Independent member                 |
| - E Vause          | Trustee                            |

**10.2 INVESTMENT COMMITTEE**

The primary responsibility of the committee is to assist the Board of Trustees in carrying out its duties relating to the investment strategy of the Scheme. The committee met on the following three occasions during the course of the year:

- 4 February 2009
- 5 August 2009
- 11 November 2009.

The members of the committee are:

- |               |                            |
|---------------|----------------------------|
| - D Cope      | Chairperson                |
| - E Vause     | Trustee                    |
| - M Magnussen | Trustee                    |
| - J Macmillan | Resigned: 4 February 2009  |
| - G Lea       | Appointed: 4 February 2009 |

**PICK N PAY MEDICAL SCHEME  
ANNUAL REPORT OF THE BOARD OF TRUSTEES (CONTINUED)**

**10. COMMITTEES OF THE BOARD OF TRUSTEES (CONTINUED)**

**10.3 CLINICAL COMMITTEE**

The primary responsibility of the committee is to assist the Board of Trustees in its responsibility for oversight of the Scheme's various managed care programmes and to ensure that all clinical risks to which the Scheme is exposed are identified and adequately managed.

The committee met on the following three occasions during the course of the year:

- 22 January 2009
- 16 July 2009
- 28 October 2009.

The members of the committee are:

- M Bailey Chairperson
- E Vause Trustee
- E Conradie Independent member
- GT Jones Principal Officer (resigned 3 February 2010)

**10.4 EX-GRATIA COMMITTEE**

The primary responsibility of the committee is to assist the Board of Trustees in awarding additional benefits where pre-determined criteria have been met and the need is warranted.

The committee met monthly from January to November during the course of the year.

The members of the committee are:

- M Bailey Chairperson
- E Conradie Independent member
- GT Jones Principal Officer (resigned 3 February 2010)

**11. MEETING ATTENDANCES**

The following schedule sets out meeting attendances by members of the Board of Trustees and committees.

Trustee/committee member	Board meetings		Risk and Audit Committee		Investment Committee	
	A	B	A	B	A	B
D Cope	5	5	-	-	3	3
H de Light	5	3	-	-	-	-
P Gerber (Hinde)	-	-	3	2	-	-
B Grovers (appointed: 20 May 2009)	3	3	-	-	-	-
M Horney	5	4	-	-	-	-
C Hurst (resigned: 4 February 2009)	1	-	-	-	-	-
A Jakoet	-	-	3	3	-	-
GT Jones (Principal Officer; resigned: 3 February 2010)	5	5	3	3	3	3
G Lea (appointed: 4 February 2009)	5	5	-	-	3	3
J Macmillan (resigned 4 February 2009)	1	-	-	-	-	-
M Magnussen	5	4	3	3	3	3
I Motaung	5	2	-	-	-	-
J Schubach	-	-	3	2	-	-
E Vause	5	5	3	3	3	3

*A - Total possible number of meetings could have attended*

*B - Actual number of meetings attended*

**PICK N PAY MEDICAL SCHEME  
ABRIDGED FINANCIAL STATEMENTS**

**STATEMENT OF FINANCIAL POSITION  
at 31 December 2009**

	Notes	2009 R	2008 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Available-for-sale investments	2	164,768,568	135,520,629
		164,768,568	135,520,629
<b>Current assets</b>			
Insurance and other receivables		120,474,211	100,514,249
		177,759	228,230
Cash and cash equivalents		120,296,452	100,286,019
		120,296,452	100,286,019
<b>Total assets</b>		285,242,779	236,034,878
<b>FUNDS AND LIABILITIES</b>			
<b>Members' funds</b>			
Accumulated funds		223,994,132	191,490,157
		145,959,592	129,850,014
Revaluation reserve: Available-for-sale investments		88,034,540	61,640,143
		88,034,540	61,640,143
<b>Current liabilities</b>			
Savings plan liability		51,248,647	44,544,721
		45,018,826	38,269,199
Insurance and financial liabilities		773,052	772,037
		773,052	772,037
Outstanding claims provision	3	5,456,759	5,503,485
		5,456,759	5,503,485
<b>Total funds and liabilities</b>		285,242,779	236,034,878

**PICK N PAY MEDICAL SCHEME  
ABRIDGED FINANCIAL STATEMENTS (CONTINUED)**

**STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2009**

	Notes	2009 R	2008 R
<b>Net contribution income</b>	4	135,118,457	114,136,587
<b>Relevant healthcare expenditure</b>	5	(108,743,449)	(95,458,085)
Net claims incurred		(108,162,291)	(94,860,799)
Claims incurred		(108,338,424)	(95,302,414)
Third-party claim recoveries		176,133	441,615
Net expense on risk transfer arrangement		(581,158)	(597,286)
Premiums paid on risk transfer arrangement		(6,075,439)	(4,073,030)
Recoveries from risk transfer arrangement		5,494,281	3,475,744
<b>Gross healthcare result</b>		26,375,008	18,678,502
Managed care: Management services		(4,830,947)	(3,929,194)
Administration expenses		(13,613,907)	(11,896,094)
Net impairment losses on insurance receivables		(62,072)	(9,937)
<b>Net healthcare result</b>		7,868,082	2,843,276
<b>Other income</b>		12,246,586	19,935,949
Investment income		10,015,557	10,853,759
Realised gain on disposal of available-for-sale investments		2,165,456	8,994,087
Sundry income		65,573	88,103
<b>Other expenditure</b>		(4,005,090)	(5,170,847)
Asset management (income)/fees		49,554	(1,851,494)
Interest on savings accounts		(4,054,644)	(3,319,353)
<b>Net surplus for the year</b>		16,109,578	17,608,378
<b>Other comprehensive income</b>			
Fair value adjustment on available-for-sale investments		28,559,853	(12,620,218)
Less: Realised gain on disposal of available-for-sale investments		(2,165,456)	(8,994,087)
<b>Total comprehensive income/(loss) for the year</b>		42,503,975	(4,005,927)

**PICK N PAY MEDICAL SCHEME  
ABRIDGED FINANCIAL STATEMENTS (CONTINUED)**

**STATEMENT OF CHANGES IN FUNDS AND RESERVES  
for the year ended 31 December 2009**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Accumulated funds</b>		
Balance at the beginning of the year	129,850,014	112,241,636
Net surplus for the year	16,109,578	17,608,378
Balance at the end of the year	<u>145,959,592</u>	<u>129,850,014</u>
<b>Revaluation reserve: Available-for-sale investments</b>		
Balance at the beginning of the year	61,640,143	83,254,448
Unrealised gain/(loss) on revaluation of available-for-sale investments	28,559,853	(12,620,218)
Realised gain on revaluation of available-for-sale investments	(2,165,456)	(8,994,087)
Balance at the end of the year	<u>88,034,540</u>	<u>61,640,143</u>
Members' funds	<u>233,994,132</u>	<u>191,490,157</u>

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE ABRIDGED FINANCIAL STATEMENTS**

**1. ACCOUNTING POLICIES**

The accounting policies applied in the preparation of the abridged financial statements are consistent with the prior year.

**1.1 Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standard Board (IASB) and in accordance with the requirements of the Medical Schemes Act No. 131 of 1998 (the Act).

**1.2 Basis of preparation**

The financial statements provide information about the financial position, results of operations and changes in the financial position of the Scheme. These have been prepared under the historical cost convention, except for available-for-sale financial assets, which are carried at fair value.

The Scheme's functional and presentation currency is South African rands.

**1.3 Use of estimates**

The preparation of financial statements necessitates the use of estimates and assumptions. These estimates and assumptions affect the reported amount of assets, liabilities and contingent liabilities at the date of the statement of financial position, as well as affecting the reported income and expenditure for the year. The actual outcome may differ from these estimates, possibly significantly. There have been no significant changes in estimates in the current year.

**2. AVAILABLE-FOR-SALE INVESTMENTS**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
Fair value at the beginning of the year	135,520,629	134,940,847
Additions	4,186,145	27,023,919
Capitalised interest	688,086	-
Disposal	(4,186,145)	(13,823,919)
Unrealised gain/(loss) on revaluation of available-for-sale investment	28,559,853	(12,620,218)
Fair value at the end of the year	<u>164,768,568</u>	<u>135,520,629</u>
Non-current	<u>164,768,568</u>	<u>135,520,629</u>
The investments included above represent investments in:		
- Allan Gray Equity Fund	145,076,193	115,455,902
- Investec Global Absolute Income Fund	19,692,375	20,064,727
	<u>164,768,568</u>	<u>135,520,629</u>

A register of investments is available for inspection at the registered office of the Scheme.

**3. OUTSTANDING CLAIMS PROVISION**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Analysis of movements in outstanding claims</b>		
Balance at the beginning of the year	5,503,485	3,610,924
Payments in respect of the prior year	(5,290,822)	(3,369,590)
Over provision in the prior year	212,663	241,334
Adjustment for the current year	5,244,106	5,262,151
Balance at the end of the year	<u>5,456,769</u>	<u>5,503,485</u>
<b>Analysis of outstanding claims provision</b>		
Estimated gross claims	6,102,053	6,230,684
Less: Estimated recoveries from savings plan accounts	(645,284)	(727,199)
	<u>5,456,769</u>	<u>5,503,485</u>

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)**

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**3. OUTSTANDING CLAIMS PROVISION (CONTINUED)**

The provision for outstanding claims in terms of risk transfer arrangements for the year ended 31 December 2009 was Rnil (2008: Rnil).

**Process used to determine the assumptions over claims provisioning**

The process used to determine the assumptions over claims provisioning is intended to result in realistic estimates of the most likely or expected outcome. The sources of data used as inputs for the claims run-off assumptions are internal, using detailed studies that are carried out on a regular basis. There is more emphasis placed on current trends.

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:

- change in claims submission mechanisms;
- changes in composition of members and their dependants;
- random fluctuations; and
- legislative changes.

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 (specifically hospital pre-authorisation). 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.

Independent actuaries perform separate calculations of the outstanding claims provision, which is compared to the estimates as prepared by management. Where variances arise, an understanding thereof is sought and any applicable adjustments catered for.

**Assumptions**

The assumptions that have the greatest effect on the measurement of the outstanding claims provision are the expected percentages of claims settled after each of the first four months of the claims run-off period, before the claims turn stale.

**Sensitivity of outstanding claims provision**

The percentages used as assumptions are listed in the table below. The table also outlines the sensitivity of these percentages and the impact on the Scheme's liabilities if an incorrect assumption is used.

**Other assumptions**

- The actual demographics of the Scheme were used, including all membership movements for the period.
- The effect of ageing of the population on the utilisation of health services is automatically incorporated.
- Utilisation escalation incorporates the impact of HIV/AIDS.

The assumed percentages of claims outstanding at the end of the period are as follows:

	<b>2009</b>	<b>2008</b>
Claims outstanding for services rendered in:	%	%
- December	50.7	59.3
- November	18.0	20.2
- October	7.1	3.7
- September	3.4	1.4
- August and prior	1.4	0.5

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)**

**3. OUTSTANDING CLAIMS PROVISION (CONTINUED)**

The impact of the sensitivity of these percentages are set out below:

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
Effect of a 1% change in assumed percentages	431,607	377,366
Effect of a 2% change in assumed percentages	872,559	762,885
Effect of a 3% change in assumed percentages	1,231,859	1,156,783

The Scheme believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions which could differ when claims arise.

**4. NET CONTRIBUTION INCOME**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
Gross contributions	179,992,942	152,061,639
Less: Savings plan contributions	(44,874,485)	(37,925,052)
Net contribution income	<u>135,118,457</u>	<u>114,136,587</u>

**5. RELEVANT HEALTHCARE EXPENDITURE**

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Claims incurred, excluding claims incurred in respect of risk transfer arrangement</b>		
Current year claims	138,551,122	120,283,940
Movement in outstanding claims provision	5,244,106	5,262,151
Over-provision in the prior year	(212,663)	(241,334)
Adjustment for the current year	5,456,769	5,503,485
	<u>143,795,228</u>	<u>125,546,091</u>
Less:		
Claims paid against savings account	(40,863,077)	(33,411,674)
Cash discounts received on claims	(88,008)	(307,747)
Total claims incurred, excluding risk transfer arrangement	<u>102,844,143</u>	<u>91,826,670</u>
<b>Claims incurred in respect of risk transfer arrangement</b>		
Current year claims	5,494,281	3,475,744
Movement in outstanding claims provision	-	-
Net claims incurred per the statement of comprehensive income	<u>108,338,424</u>	<u>95,302,414</u>
<b>Net expense on risk transfer arrangement</b>		
Premiums paid	(6,075,439)	(4,073,030)
Recoveries received	5,494,281	3,475,744
Net expense on risk transfer arrangement	<u>(581,158)</u>	<u>(597,286)</u>

The Scheme entered into a risk transfer arrangement with the Centre for Diabetes and Endocrinology (Pty) Ltd (CDE) during 2008. In terms of the arrangement, CDE provides a comprehensive programme for members of the Scheme with diabetes at a fixed monthly rate per beneficiary on the programme.

**6. RELATED PARTY DISCLOSURES**

**Parties with significant influence over the Scheme**

Metropolitan Health Corporate (Pty) Limited (MHC) has significant influence over the Scheme, as it provides financial and operational information on which policy decisions are based, but does not control the Scheme. MHC provides administration services.

**PICK N PAY MEDICAL SCHEME  
NOTES TO THE ABRIDGED FINANCIAL STATEMENTS (CONTINUED)**

**6. RELATED PARTY DISCLOSURES (CONTINUED)**

**Parties with significant influence over the Scheme (continued)**

Managed care organisation, Qualsa Healthcare (Pty) Limited (Qualsa), a wholly-owned subsidiary of MHG, provided managed care services until 30 June 2009 and had significant influence over the Scheme, but did not control the Scheme.

NMG Consultants and Actuaries (NMG) has significant influence over the Scheme, as they provide financial and operational information on which policy decisions are based, but do not control the Scheme. NMG provides consulting and actuarial services, and provides services as an independent member on the Risk and Audit Committee.

**Key management personnel and their close family members**

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

Close family members include family members of the Board of Trustees, Principal Officer and members of the committees.

**Transactions and balances with related parties**

The following table provides the total number of transactions that have been entered into with related parties for the relevant financial year.

	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Statement of comprehensive income</b>		
Gross contributions received (key management personnel)	416,580	309,928
Claims incurred (key management personnel)	228,144	294,400
Compensation (key management personnel)		
- Medical advisor	444,547	408,548
Administration fees (MHC)	10,853,337	9,201,885
Managed care fees (Qualsa)	2,055,661	3,520,646
Consulting fees (NMG)	1,824,000	1,679,024
	<b>2009</b>	<b>2008</b>
	<b>R</b>	<b>R</b>
<b>Statement of financial position</b>		
Consulting fees payable (including in accrued expenses)	152,000	279,837
Savings plan liability (key management personnel)	874,689	900,035
Medical advisor compensation payable (included in accrued expenses)	37,046	34,046
Reimbursement of postage/printing cost payable to MHC (included in accrued expenses)	2,668	63,444

**The terms and conditions of the related party transactions were as follows:**

**Contributions received (key management personnel)**

This constitutes the contributions paid by the related parties as members of the Scheme, in their individual capacities. All contributions were at the same terms as applicable to other members.

**Claims incurred (key management personnel)**

This constitutes amounts claimed by the related parties, in their individual capacities as members of the Scheme. All claims were paid out in terms of the rules of the Scheme, as applicable to other members.

**6. RELATED PARTY DISCLOSURES (CONTINUED)**

**The terms and conditions of the related party transactions were as follows (continued):**

**Compensation (key management personnel)**

This constitutes payment to the Scheme's medical advisor. The Trustees and the Principal Officer are not remunerated by the Scheme.

**Administration fees**

The administration agreement is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite but subject to the right of either party to terminate the agreement by giving not less than three months' notice. The outstanding balance bears no interest and is due within 30 days.

**Managed care fees**

The managed care agreement is in terms of the rules of the Scheme and in accordance with instructions given by the Board of Trustees. The contract with Qualsa was terminated on 30 June 2009.

**Savings account balances**

The amounts owing to the related parties relate to savings account balances to which the parties have a right. In line with the terms applied to other members, the balances earn interest at a rate similar to that that the Scheme receives on its cash and cash equivalent investments. The amounts are all current, and are payable on demand should an appropriate claim be issued, or if the member exits the Scheme.

**Actuarial and consulting fees**

The agreement with NMG is in accordance with instructions given by the Board of Trustees. The duration of the agreement is indefinite, but subject to the right of either party to terminate the agreement by giving not less than three months' notice. The outstanding balance bears no interest and is due within 30 days.

**7. CONTINGENT ASSET**

At 31 December 2009 the Scheme had pending motor vehicle recoveries submitted to the Road Accident Fund (RAF) for assessment. These recoveries will only be accounted for when an amount is virtually certain to be received from the RAF. The value at year end amounted to R2,200,443 (2008: R2,090,397).

**PICK N PAY MEDICAL SCHEME  
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE PICK N PAY MEDICAL SCHEME**

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**Report on the abridged financial statements**

The abridged financial statements set out on pages 11 to 18 have been derived from the financial statements of Pick n Pay Medical Scheme (the Scheme) for the year ended 31 December 2009. These abridged financial statements are the responsibility of the Scheme's Trustees. Our responsibility is to express an opinion on whether these abridged financial statements are consistent, in all material respects, with the financial statements from which they were derived.

We have audited the Annual Financial Statements of Pick n Pay Medical Scheme for the year ended 31 December 2009, from which the abridged financial statements were derived, in accordance with International Standards on Auditing.

In our report dated 21 April 2010, we expressed an unqualified opinion on the financial statements from which the abridged financial statements were derived.

In our opinion, the abridged financial statements are consistent, in all material respects, with the financial statements from which they are derived.

For a better understanding of the Scheme's financial position and its financial performance for the year ended 31 December 2009 and of the scope of our audit, the abridged financial statements should be read in conjunction with the financial statements from which the abridged financial statements were derived and our audit report thereon. Detailed financial statements are available on request from the Scheme.

KPMG Inc  
Registered Auditor

Per LP Smith  
Chartered Accountant (SA)  
Registered Auditor  
Director  
21 April 2010

**Pick n Pay**

**Medical scheme**