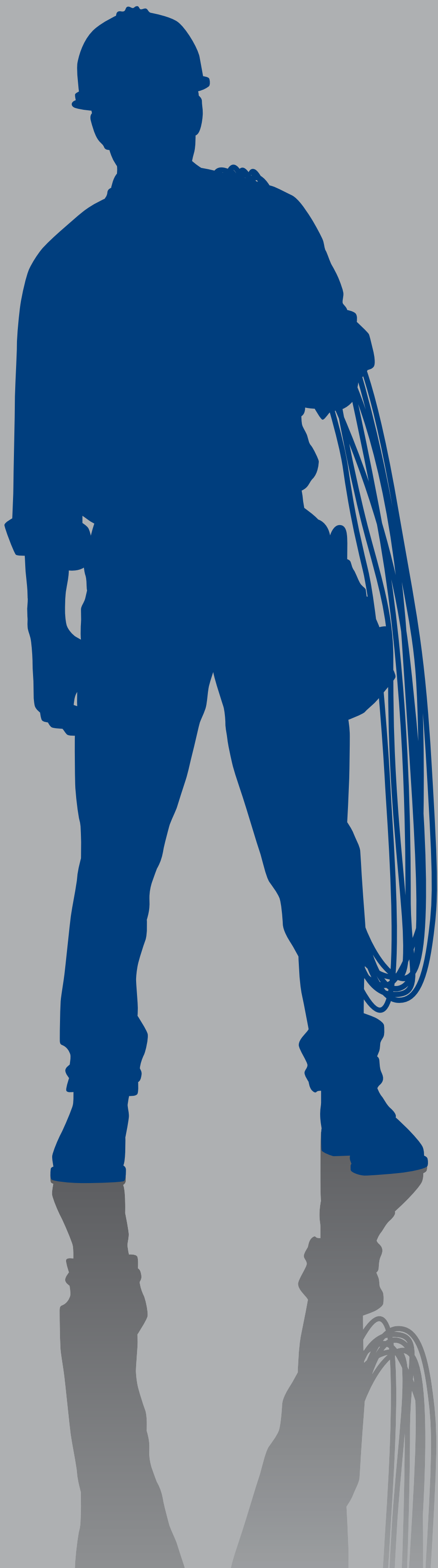
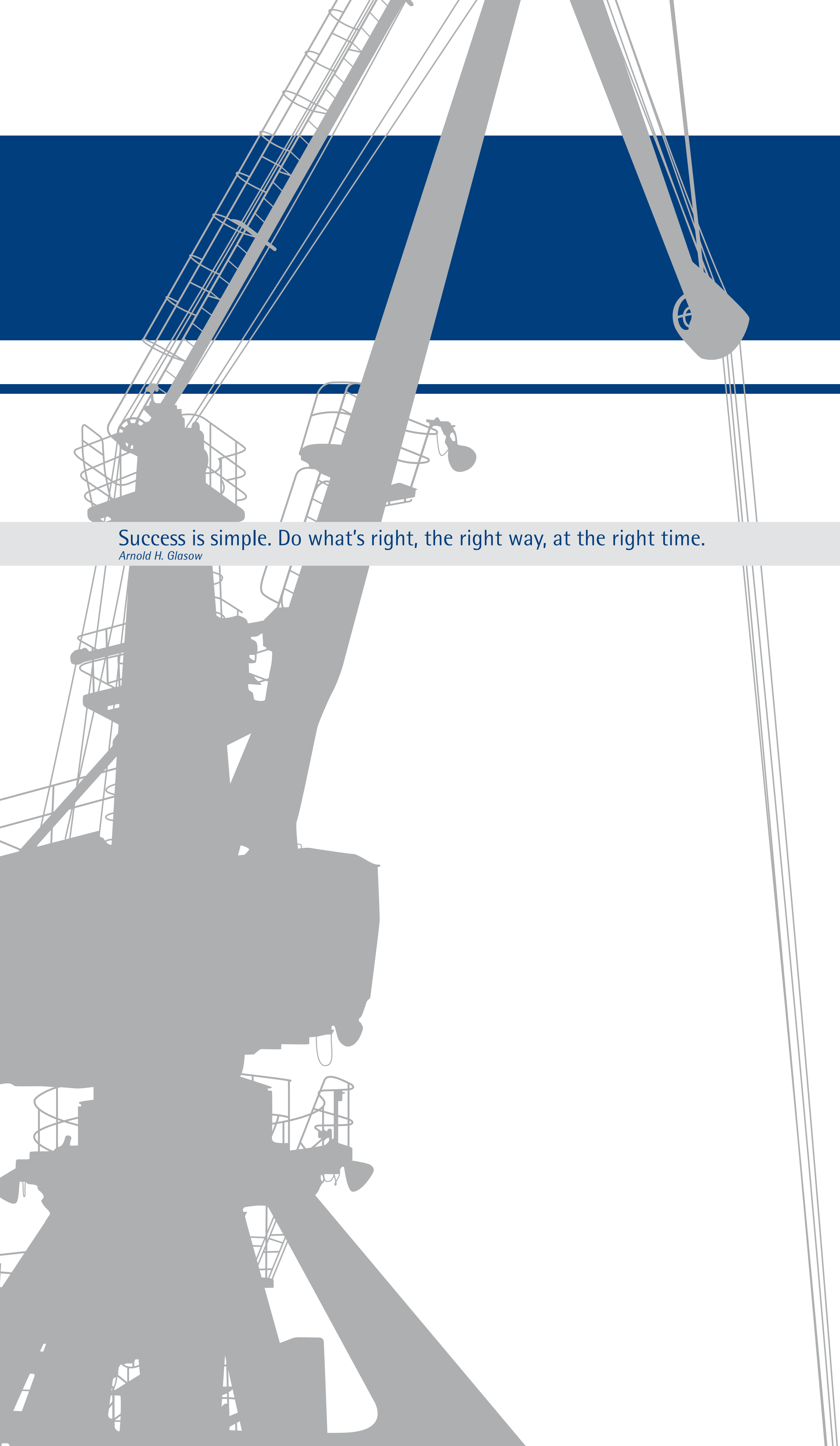
FEM

THE FEDERATED EMPLOYERS'
MUTUAL ASSURANCE COMPANY LIMITED

# Annual Report 2006

70 YEARS





Success is simple. Do what's right, the right way, at the right time.

*Arnold H. Glasow*

*FEM provides insurance cover to the construction industry alongside the State's Compensation Fund, which is managed by the Compensation Commisioner. This insurance compensates employees or their dependants following injury arising from occupational accidents and illness occasioned by industrial diseases*

FEM

THE FEDERATED EMPLOYERS' MUTUAL ASSURANCE COMPANY LIMITED

Annual Report

2006

# Contents

## The Federated Employers' Mutual Assurance Company Limited

(Registration No. 1936/008971/06)



Website address: www.fema.co.za

# The Report of the Chairman and Managing Director

We are pleased to report on the activities and results of The Federated Employers' Mutual Assurance Company Limited for 2006.

## Business

The Federated Employers' Mutual Assurance Company Limited ("FEM") provides insurance cover to the building and construction industry alongside the State's Compensation Fund, which is managed by the Compensation Commissioner. This insurance compensates employees or their dependants following injury arising from occupational accidents and illness occasioned by industrial diseases.

This year marks the 70th Anniversary of the company. After so many years, where does one begin to start thanking the people responsible for ensuring the stability and growth of the company?

A Special Edition booklet to commemorate the company's 70th anniversary will be distributed paying tribute to those concerned, but for now, recognition goes to all the past and present Directors, management, staff and stakeholders, especially the Compensation Fund and the policyholders for their support and loyalty.

As part of the Company's 70th celebration the Board made a decision to give each of our pensioners a gift token of R1,000. This gesture was received with overwhelming gratitude.

## Overall performance

Net premium revenue for the year totalled R214,5 million, which is an increase of R59,4 million or 38% over the corresponding figure of R155,1 million for 2005.

Claims registered of 9,184 (2005: 8,720) have increased by 5% (2005: 8%) and medical claims paid have increased by 30% (2005: 23%), which is in line with the growth in business of 39% (2005: 24%). Pensions paid have increased from R23,2 million to R25,2 million, or 9%.

The increase in the pensions liability in 2006 is R61,1 million compared with R37,8 million in 2005. The large increase in 2005 was mainly as a result of an external actuarial valuation done. The current year's movement in the pensions liability is as a result of the changes in the economic assumptions used by the Company's actuaries in calculating this liability.

The annual pension increase approved by the Compensation Commissioner, effective 01 April 2007 is 3.4%.

Total investment income, including net gains on financial assets, has increased by 50%, from R136,8 million in 2005 to R205,8 million in 2006, which is mainly attributable to an increase in net gains on financial assets of R53,6 million.

Profit after tax for the year was R117,7 million (2005: R31,5 million) – the significant increase is mainly as a result of the increase in net gains on financial assets. After the transfer of R8,2 million (2005: R3,8 million) to the contingency reserve the transfer to retained income amounted to R109,4 million (2005: R65,0 million).

# Highlights of the year under review

### *Income tax*

In light of the fact that the Compensation Commissioner is exempt from taxation, the Directors were of the opinion that an application should be made to SARS for similar taxation status. After a lengthy process SARS accepted our arguments in this regard and has granted the Company tax exempt status with effect from 1 January 2006.

### *Premiums*

The Company continues to record growth in premiums written, which can be attributed to the robust economy and continued low interest rates for the period, resulting in increased activity in the construction industry.

### *Information & technology*

FEM's computer system continues to be enhanced to meet any new requirements and keep pace with developments and changes in the business environment. The system is of a high standard and enables us to provide efficient services to policyholders and their employees, especially with the introduction of electronic communication with policyholders.

### *Claims management*

There has been a significant increase in claims paid this year, which was anticipated given the level of economic activity, in the construction industry. The continued engagement of professional claims managers to manage selected claims has proved, once again, to be a beneficial initiative.

### *Employment equity*

FEM is committed to meeting the targets of its employment equity plan, and is currently on target.

### *Broad based black economic empowerment ("BEE")*

With the introduction of the new BEE codes FEM is in the process of compiling a strategy to achieve compliance and is in discussion with various Stakeholders in this regard.

### *Corporate governance*

It is our pleasure to report that the company is substantially compliant with King II, as illustrated on pages 6 to 11 of the annual report.

# Solvency margin – international basis

The international solvency margin is calculated as a percentage of net assets, per the financial statements, over net written premium. In 2006 the solvency margin has decreased slightly from 297% to 276% as a result of the increase in net premium income of 38%.

# The Report of the Chairman and Managing Director

## Occupational health, safety and rehabilitation

Financial assistance amounting to R4 million was provided to the health and safety programmes of the various building industry associations. Statistics reflect a steady decrease in the number of employees injured proportionate to the number insured, with the accident frequency rate steadily decreasing each year. A run-off table of accident frequencies for the past 5 years is presented below. FEM's claims registered cycle is normally 2½ years, and therefore 2005 and 2006 are subject to change, but compared to prior years there is a clear indication of the decrease over time.

Road shows were held nationally during 2006 in an endeavour to bring health and safety to our policyholders. All of them were very well attended and proved to be beneficial.

| | Underwriting year | | | | |
|---|---|---|---|---|---|
| Accident frequency rate: accidents over total insured employees | 2002 | 2003 | 2004 | 2005 | 2006 |
| Financial year end | | | | | |
| 2002 | 4.78 | - | - | - | - |
| 2003 | 5.49 | 4.56 | - | - | - |
| 2004 | 5.53 | 5.14 | 4.43 | - | - |
| 2005 | 5.54 | 5.18 | 4.97 | 4.15 | - |
| 2006 | 5.54 | 5.19 | 5.00 | 4.74 | 4.15 |

It is also pleasing to note that FEM made a large number of health and safety awards to employers in recognition of their efforts to promote health and safety among their workers. During 2006, R73,6 million was awarded to policyholders in merit rebates.

## Thanks

Ready co-operation and assistance continues to be received from the office of the Compensation Fund at all levels and we are particularly grateful to the Acting Commissioner for this support.

Our sincere thanks must go to our fellow Directors for their continued advice and wise counsel throughout the year.

Finally, we thank the executive committee and staff of FEM for their devoted and excellent service during the year.

## Prospects

FEM is strongly positioned to face the future challenges and remains committed to the provision of an effective and efficient compensation service to all our stakeholders. To all of them we extend our very best wishes for the time that lies ahead.

**J A BARROW**
*Chairman*

**T T PUGH**
*Managing Director*

17 April 2007

# Executive team

Thelma Pugh - Managing Director

Ashwin Daya - Chief Financial Officer

Valerie Terry - Chief Claims Officer

Gys Mc Intosh - Chief Information Officer

Rod Saunders - Chief Underwriting Officer

Ayesha Ismail - Chief Human Resources Officer

Rudi van Deventer - Business Analyst

# Corporate Governance Statement

For the year ended 31 December 2006

The Directors regard Corporate Governance as vitally important and are committed to applying principles necessary to ensure that good corporate governance is practised. These principles include discipline, independence, fairness, social responsibility and transparency. In this regard the Directors endorse the code of corporate practice and conduct recommended in the King report. The Federated Employers' Mutual Assurance Company Limited ("the Company") complies substantially with the recommendations of King II.

By supporting these codes, the Company demonstrates its commitment to the highest standards of integrity and ethical conduct in dealings with all its stakeholders. Monitoring the Company's compliance with the King Code on Corporate Governance forms part of the audit and risk management committee charter.

## The Board of Directors

For the period under review, there were eleven Directors (2005: ten) on the Board, ten (2005: nine) of whom are non-executive. The non-executive Directors bring diversity and experience, insight and independent judgement on issues of strategy, performance, resources and standards of conduct. New appointments to the board are submitted to the board as a whole for approval, prior to appointment. The roles of the Chairman and the Managing Director do not vest in the same person, and the Chairmen of the various board committees are non-executive Directors.

The Chairman and Managing Director provide leadership and guidance to the Board, encourage proper deliberation on all matters requiring the Board's attention and obtain optimum input from the other Directors.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are followed. All Directors are entitled to seek independent professional advice about the affairs of the Company at the Company's expense should this prove to be necessary.

Executive Directors have service contracts with the Company containing normal notice periods. Non-executive Directors have no service contracts with the Company and in terms of the Company's articles of association, one third of the Directors retire by rotation and are eligible for re-election each year at the company's annual general meeting, and this year they are Messrs CS Jiyane, NF Maas and H Walker.

***Chris S Jiyane (47)***

Mr CS Jiyane, who has been in the construction industry for 25 years, is the executive chairman of Udingo Construction, which he formed in August 2006. He also serves on the board of St Mary's School, as well as various other entities. He was appointed to the FEM board as a non-executive Director in 2004.

***Nico F Maas (56)***

Mr NF Maas is Managing Director and co-owner of Gauteng Piling (Pty) Ltd and a Director of Freestate Piling and Piling Botswana. He has a master's degree in construction management and is also a registered professional engineer and became a fellow of the SA Institute of Civil Engineers in 2006. He was appointed to the FEM board as a non-executive Director in 2004.

***Howard Walker (45)***

Mr H Walker is Managing Director of Alexander Forbes Financial Services SA and chairman of the board of Alexander Forbes Life. He is a qualified actuary and has been in the insurance industry for most of his working career. He was appointed to the FEM board as non-executive Director in 2002.

Director appointments made during a financial year are to be confirmed at the first annual general meeting following such appointment.

Executive and non-executive Directors' emoluments are disclosed in note 27 to the annual financial statements.

The Board of Directors meet quarterly and has ultimate responsibility for strategic policy decisions, overall direction, control and performance. The Board monitors management, ensuring that material matters are subject to Board approval. The articles of association provide for material decisions, taken between meetings, to be confirmed by way of Directors' resolutions.

Attendance at meetings during the year

| *Board and investment committee* | March | May | August | November |
| --- | --- | --- | --- | --- |
| *Non-executive Directors* | | | | |
| JA Barrow (Chairman) | ✓ | ✓ | ✓ | ✓ |
| JR Barrow | ✓ | ✓ | ✓ | ✓ |
| CS Jiyane | ✓ | ✓ | × | × |
| NF Maas | × | ✓ | ✓ | ✓ |
| GD Irons | ✓ | ✓ | ✓ | ✓ |
| *Independent non-executive Directors* | | | | |
| APH Jammine | ✓ | ✓ | ✓ | ✓ |
| H Ngakane | ✓ | ✓ | ✓ | ✓ |
| CE Saville | ✓ | ✓ | ✓ | ✓ |
| H Walker | × | ✓ | ✓ | ✓ |
| PL Wilmot | ✓ | ✓ | ✓ | ✓ |
| *Executive Director* | | | | |
| TT Pugh (Managing) | ✓ | ✓ | ✓ | ✓ |

To assist the Board in discharging its collective responsibility for corporate governance, several committees have been established, to which certain of the Board's responsibilities have been delegated. Each committee of the Board operates in terms of a formal written charter and comprises non-executive Directors only. The Chairmen of the Board and each committee are elected annually after the annual general meeting.

## Audit and risk management committee

The audit and risk management committee meets at least twice a year with management and the external and internal auditors. The external auditors have unrestricted access to the committee and the committee has unrestricted access to the company's management, employees, external and internal auditors and outside consultants.

The audit and risk management committee, which operates in accordance with a formal charter authorised by the Board, provides assistance to the Board with regard to:

- ensuring compliance with applicable legislation and the requirements of regulatory authorities;
- compliance with the company's code of ethics;
- matters relating to financial and internal control, accounting policies, reporting and disclosure;
- the scope, adequacy and effectiveness of the systems of internal control;
- review and approval of external and internal audit plans, findings, problems, reports and fees; and
- monitoring and review of all tax compliance activities.

From a risk perspective, the responsibility of the committee is to oversee the quality, integrity and reliability of the company's risk management function. The committee has also been delegated the task of reviewing and assessing the integrity and quality of the control systems and ensures that risk policies and strategies are effectively managed.

From an audit perspective, the committee assists the board by performing an objective and independent review of the organisation's finance and accounting control procedures.

The audit and risk management committee performs its function through close liaison and communication with management, and the internal and external auditors.

The audit and risk management committee addressed its responsibilities properly in terms of the charter during the 2006 financial year.

Attendance at meetings during the year

| | March | July |
|---|---|---|
| PL Wilmot (Chairman) | ✓ | ✓ |
| NF Maas | ✓ | ✓ |
| H Walker | ✓ | × |

## Remuneration committee

The remuneration committee meets at least once a year. The remuneration committee advises the board on remuneration policies, packages and other terms of employment for all Directors and senior executives. Its specific terms of reference also include recommendations to the Board in matters relating, inter-alia, to staff remuneration policies, incentive schemes, executive and Directors' fees and retirement funds. The committee may seek advice from independent professional advisors. The committee meets only once a year unless otherwise required.

*Attendance at meeting(s) during the year*

| | May | November | December |
|---|---|---|---|
| H Walker (Chairman) | ✓ | ✓ | ✓ |
| JA Barrow | ✓ | ✓ | ✓ |
| APH Jammine | ✓ | ✓ | ✓ |

## Investment committee

The investment committee comprises the full Board, which meets quarterly. The investments are managed by Investec Asset Managers, who manage the portfolio in terms of a mandate approved by the Board. The fund manager reports to, and discusses the investment performance and future activities with the investment committee, on a quarterly basis.

## Executive committee

The Managing Director, Mrs TT Pugh, chairs the executive committee, which comprises all senior executives.

The committee is responsible for implementing the strategies and policies determined by the Board, managing the business affairs of the company, prioritising the allocation of capital and technical human resources and establishing best management practices.

The committee is also responsible for management appointments and monitoring their performance.

The present committee comprises:

TT Pugh (Managing Director)
A Daya (Chief Financial Officer)
R van Deventer (Business Analyst)
A Ismail (Chief Human Resources Officer)
GM Mc Intosh (Chief Information Officer)
VPA Terry (Chief Claims Officer)
RA Saunders (Chief Underwriting Officer)

## Risk management and internal control

The Board of Directors acknowledges that it is responsible for the total process of risk management, recognising enterprise-wide risks to which the Company is exposed and ensuring that the proper policies of control to mitigate risks, are put in place. Management is continuously developing and enhancing its risk and control procedures to improve the mechanisms for identifying and monitoring risks.

The Directors recognise their responsibility for internal, financial and operating controls and the monitoring of their effectiveness, including communicating appropriate risk and control policies throughout the organisation. Ethical behaviour, compliance with legislation and sound accounting practice underpin the internal control process. The audit and risk management committee is responsible for identifying, evaluating and managing significant risks on a regular basis.

The financial and operating controls are designed to provide assurance regarding the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability of the company's assets. However, no matter how well designed, these controls can be circumvented and therefore provide only reasonable and not absolute assurance with respect to the reliability of financial information and annual financial statement presentation.

The operating policies include a documented organisational structure and division of responsibility, established policies and procedures, including a Code of Ethics to foster a strong ethical climate, which are communicated throughout the Company. It also includes the careful selection, training and development of people.

The Managing Director and Chief Financial Officer are responsible for designing and maintaining the operation of the financial and operating controls and for their ongoing appropriateness. They consider that the systems are appropriately designed to provide reasonable, but not absolute, assurance that the assets are safeguarded against material loss or unauthorised use and that transactions are properly authorised and recorded.

Internal audit monitors the operation of the underwriting, claims and pensions internal control systems and reports findings and recommendations to management and to the audit and risk management committee. Corrective action is taken to address control deficiencies and other opportunities for improving the system as they are identified.

## Annual financial statements

Management prepare the annual financial statements and other information presented in the annual report, which is approved by the Board. The Directors are responsible for ensuring that they are prepared in a manner that fairly presents the financial position and the results of the operations and cash flows of the Company for the reporting period.

The annual financial statements set out on pages 15 to 49 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. They are based on appropriate accounting policies, which are consistently applied in all material aspects, except where otherwise stated, and are supported by reasonable and prudent judgements and estimates. Adequate accounting records have been maintained throughout the year under review.

The external auditors are responsible for carrying out an independent examination of the annual financial statements in accordance with International Standards on Auditing and for reporting whether they are fairly presented. The auditors' report is set out on page 14 of these annual financial statements.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors, and committees of the Board. Management believe that all representations made to the independent auditors during their audit are valid and appropriate.

## Going concern

The going concern basis has been adopted in preparing the annual financial statements. Based on forecasts and available cash resources, the Directors have every reason to believe that the Company will have adequate resources to continue to meet its obligations for the foreseeable future.

A business continuity and disaster recovery plan has been developed and documented.

## Ethical standards

The Company has a Code of Ethics ("Code"), which has been fully endorsed by the Board and applies to all Directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity and objectivity and in compliance with the letter and spirit of both the law and company policies. Failure by employees to act in terms of the Code results in disciplinary action.

The Code is discussed with new employees as part of their induction training, and forms part of their employment contract.

A "whistle-blowing" facility exists for reporting of non-adherence to the Code of Ethics or ethics-related matters.

The Directors believe that ethical standards are being met and fully support the ethics programme.

## External auditors independence

PricewaterhouseCoopers Inc. ("PwC") are the external auditors of FEM and have confirmed that they were independent of all services provided. In 2006 FEM utilised the services of PwC in respect of certain accounting and forensic services. The non-audit fees incurred totalled R273k (see note 21.2).

## Employment equity

An employment equity plan has been in operation for some considerable time and is overseen by the Managing Director and a staff-elected employment equity committee. Accordingly, we have ensured that our employment policies, practices and working environment are non-discriminatory.

We are pleased to report that 80% (2005: 80%) of our vacancies have been filled with candidates from designated groups against our target of 70%. Due to low staff turnover, the focus of accelerated development programmes has been protracted, but we have identified succession planning as crucial and staff from designated groups have been identified to be fast-tracked and developed in an endeavour to be placed in key positions in the organisation.

# Statement of Responsibility by the Board of Directors

For the year ended 31 December 2006

The Directors are responsible for the integrity and fair presentation of the financial statements of The Federated Employers' Mutual Assurance Company Limited, which are prepared by management. The financial statements presented on pages 15 to 49 have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and include amounts based on judgements and estimates made by management.

The Directors consider that in preparing the financial statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all South African Statements of Generally Accepted Accounting Practice, considered to be applicable, have been followed. The Directors are satisfied that the information contained in the financial statements fairly presents the results of operations for the year and the financial position of the company at year-end. Management prepared the other information included in the annual report and the Directors are responsible for both its accuracy and its consistency with the financial statements.

The Company operates in a sound 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. There were no breakdowns in controls during the year under review.

The going-concern basis has been adopted in preparing the financial statements. The Directors have no reason to believe that the company will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the Company.

The Company has adhered to the Code of Corporate Practices and Conduct.

The Company's external auditors, PricewaterhouseCoopers Inc., audited the financial statements, and their report is presented on page 14.

The financial statements were approved by the Board of Directors on 29 March 2007 and were signed on the 17th of April 2007, on its behalf by:

**J A BARROW**
*Chairman*

**T T PUGH**
*Managing Director*

17 April 2007

# Certificate by the Company Secretary

For the year ended 31 December 2006

As Company Secretary, I hereby confirm, in terms of the Companies Act, 1973, that for the year ended 31 December 2006, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act, and that all such returns are true, correct and up to date.

**E J WILLIS**
*Secretary*

17 April 2007

# Independent Auditor's Report
## to the members of the Federated Employers' Mutual Assurance Company Limited

We have audited the annual financial statements of The Federated Employers' Mutual Assurance Company Limited which comprise the Directors' report, the balance sheet as at 31 December 2006, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 49.

### *Directors' Responsibility for the Financial Statements*

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, 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 Company as of 31 December 2006, and of their financial performance and their cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc**
Director: *P.E. de Villiers*
Registered Auditor
2 Eglin Road
Sunninghill

17 April 2007

The Directors have pleasure in submitting their report, which forms part of the audited annual financial statements of the Company for the year ended 31 December 2006.

## Nature of business

The Company was established as a mutual insurer in 1936 and, on the introduction of the Workmen's Compensation Act, 1941, was granted a licence to transact workmen's compensation insurance for the building industry. Its business operations are essentially confined to the insurance of employers against their liabilities under the Compensation for Occupational Injuries and Diseases Act, 1993 and extend to any employer falling within Class V of the Commissioner's industrial classifications for the building and construction industry.

In terms of the articles of association of the Company, shareholding is restricted to policyholders.

## Operating and financial review

The Company continues to record growth in premium revenue, which can be attributed to the improved economy and continued low interest rates, resulting in increased activity in the building and construction industry.

| | Movement % | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| *Insurance results* | | | |
| Net premium revenue (Note 17) | 38% | 214,501 | 155,070 |
| Claims (excluding pensions) less reinsurance recoveries (Note 20) | (6%) | (80,843) | (85,886) |
| New pensions awarded (funded by premiums) | 73% | (30,372) | (17,531) |
| Administration expenses | 27% | (32,964) | (25,951) |
| Grants | 14% | (4,046) | (3,562) |
| Accident prevention expenses | 48% | (3,744) | (2,531) |
| **Net result before pensions and rebates** | **219%** | **62,531** | **19,609** |
| Pensions paid and net movement in pensions liability (excluding new awards above) (Note 20) | 29% | (55,852) | (43,455) |
| **Net result before rebates** | **128%** | **6,679** | **(23,846)** |
| Rebates paid and provided – normal (Note 14.4) | 28% | (73,602) | (57,307) |
| Rebates paid and provided - special (Note 14.4) | (100%) | - | (9,216) |
| **Underwriting loss for the year** | **(26%)** | **(66,923)** | **(90,369)** |

As can be seen above, the Company earned a profit before pensions paid and net movement in the pensions liability, and rebates paid and provided. The underwriting losses are mainly attributed to the discretionary rebates paid and the cost of maintaining the pensioners (monthly pensions paid and movement in the valuation of the pensions liability). These expenditures are funded out of the investment income, which is not taken into account in determining the underwriting result in the income statement.

Key statistics relating to the financial position and income for the year are set out below:

| | Change % | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| *Financial position* | | | |
| **Total assets** | **23%** | **1,276,516** | **1,040,586** |
| Financial assets | 19% | 927,019 | 892,096 |
| Short term investments | 52% | 238,370 | 67,704 |
| Cash & cash equivalents | 40% | 37,469 | 26,822 |
| **Total liabilities** | **18%** | **659,176** | **560,995** |
| Outstanding claims | 11% | 115,494 | 104,331 |
| Capitalised value of pensions | 20% | 372,057 | 311,001 |
| Provision for rebates (non-current & current) | 45% | 114,403 | 79,148 |
| **Capital and reserves** | **29%** | **617,340** | **479,591** |
| *Operating results* | | | |
| Net premium revenue | 38% | 214,501 | 155,070 |
| Investment income | 27% | 72,265 | 56,864 |
| Net gains on financial assets | 69% | 133,513 | 79,890 |
| Net claims and benefits, and rebates | 13% | (240,669) | (213,395) |
| Expenses | 36% | (47,905) | (35,142) |
| **Profit before tax** | **207%** | **131,705** | **43,287** |

Full details of the Company's financial results are set out in the financial statements and notes thereto-on pages 18 to 49.

## Post balance sheet events and contingent liabilities

The Directors are not aware of any post balance sheet events that would have a material effect on the financial statements at 31 December 2006, or require disclosure.

The company has no contingent liabilities.

## Share capital

There were no changes in the authorised and issued capital of 500,000 shares of 2 cents each during the year under review.

The shares of the Company are owned by the policyholders, except for "floating capital" which is held by The Federated Employers' Trust Limited to allow for ease of entrance and exit of policyholders.

## Dividends

In terms of clause 26.1 of the Company's articles of association, shareholders are not entitled to any dividends, either during the life of the Company or upon its liquidation.

## Directors' interests in contracts

No material contracts in which the Directors have an interest were entered into in the current year other than the transactions detailed in Note 25.2 to the financial statements.

## Directors

Details of Directors' remuneration are set out in Note 27 to the financial statements.

The following were Directors of the company during the financial year:

| | |
|---|---|
| JA Barrow (Chairman) | Non-executive |
| TT Pugh | Managing Director |
| JR Barrow | Non-executive |
| GD Irons | Non-executive |
| APH Jammine | Independent non-executive |
| CS Jiyane | Non-executive |
| NF Maas | Non-executive |
| Dr H Ngakane | Independent non-executive |
| CE Saville | Independent non-executive |
| H Walker | Independent non-executive |
| PL Wilmot | Independent non-executive |

In accordance with the articles of association of the Company, Messrs CS Jiyane, NF Maas & H Walker will retire from office at the forthcoming annual general meeting and are eligible for re-election.

Director appointments made during a financial year are to be confirmed at the first annual general meeting following such appointment.

The audit and risk management committee comprises PL Wilmot (Chairman), NF Maas and H Walker.

The remuneration committee comprises H Walker (Chairman), JA Barrow and APH Jammine.

## Secretary

The secretary of the company is Ms EJ Willis.

**Business Address:**
1st Floor, Block B, 65 Central Street
Houghton
2198

**Postal Address:**
Private Bag 87109
Houghton
2041

## Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with Section 270(2) of the Companies Act in South Africa.

# Balance sheet
as at 31 December 2006

| | Notes | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| **Assets** | | | |
| *Non-current assets* | | 930,315 | 895,245 |
| Furniture, equipment and motor vehicles | 5 | 3,296 | 3,149 |
| Available-for-sale financial assets | 6.1 | 927,019 | 892,096 |
| *Reinsurance assets* | 7 | 12,861 | 8,303 |
| *Current assets* | | 333,340 | 137,038 |
| Tax overpaid | | 5,890 | 11,451 |
| Insurance assets | 8 | 34,562 | 16,283 |
| Other receivables | 9 | 17,049 | 14,778 |
| Short-term investments | 10 | 238,370 | 67,704 |
| Cash and cash equivalents | 2.5 | 37,469 | 26,822 |
| **Total assets** | | 1,276,516 | 1,040,586 |
| **Equity and liabilities** | | | |
| *Capital and reserves* | | 617,340 | 479,591 |
| Ordinary share capital | 11 | 10 | 10 |
| Other reserves | 12 | 153,076 | 124,756 |
| Retained income | | 464,254 | 354,825 |
| *Non-current liabilities* | | – | 26,207 |
| Deferred tax liability | 13.1 | – | 26,207 |
| *Insurance liabilities* | | 647,090 | 527,803 |
| Outstanding claims | 14.1 | 115,494 | 104,331 |
| Capitalised value of pensions | 14.2 | 372,057 | 311,001 |
| Provision for unearned premiums | 14.3 | 37,930 | 28,439 |
| Provision for rebates - non-current | 14.4 | 67,124 | 43,511 |
| Provision for rebates - current | 14.4 | 47,279 | 35,637 |
| Reinsurance liabilities | 14.5 | 7,206 | 4,884 |
| *Current liabilities* | | 12,086 | 6,985 |
| Accounts payable | 15 | 11,127 | 6,067 |
| Leave pay accrual | 16 | 959 | 918 |
| **Total equity and liabilities** | | 1,276,516 | 1,040,586 |

# Income statement

For the year ended 31 December 2006

| | Notes | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| Premium revenue | 17 | 238,538 | 173,767 |
| Premium revenue ceded to reinsurers | 17 | (24,037) | (18,697) |
| **Net premium revenue** | 17 | 214,501 | 155,070 |
| Investment income | 18 | 72,265 | 56,864 |
| Net gains on financial assets | 19 | 133,513 | 79,890 |
| **Net income** | | 420,279 | 291,824 |
| Insurance claims & benefits - claims | 20 | 92,815 | 93,243 |
| Insurance claims & benefits - pensions | 20 | 86,224 | 60,986 |
| Insurance claims & benefits recovered from reinsurers | 20 | (11,972) | (7,357) |
| Rebates paid & provided | 14.4 | 73,602 | 66,523 |
| **Net claims and benefits, and rebates** | | 240,669 | 213,395 |
| Administration expenses | 21 | 32,964 | 25,951 |
| Asset management expenses | | 7,151 | 3,098 |
| Accident prevention expenses and grants | | 7,790 | 6,093 |
| **Expenses** | | 288,574 | 248,537 |
| **Profit before tax** | | 131,705 | 43,287 |
| Income tax expense | 13.2 | (14,040) | (11,861) |
| **Profit for the year** | | 117,665 | 31,426 |

# Statement of changes in equity
For the year ended 31 December 2006

| | Share capital | Retained income | Statutory contingency reserve | Special pensions reserve | AIDS/claims/ rehabilitation reserve | Investment revaluation reserve | TOTAL |
|---|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **Balance at 1 January 2005** | **10** | **289,852** | **12,943** | **17,357** | **20,000** | **75,264** | **415,426** |
| Profit for the year | - | 31,426 | - | - | - | - | 31,426 |
| Transfer to contingency reserve | - | (3,810) | 3,810 | - | - | - | - |
| Transfer from special pensions reserve | - | 17,357 | - | (17,357) | - | - | - |
| Transfer from AIDS/claims/ rehabilitation reserve | - | 20,000 | - | - | (20,000) | - | - |
| Movement in fair value of available-for-sale financial assets | - | - | - | - | - | 32,739 | 32,739 |
| **Balance at 31 December 2005** | **10** | **354,825** | **16,753** | - | - | **108,003** | **479,591** |
| **Balance at 1 January 2006** | **10** | **354,825** | **16,753** | **-** | **-** | **108,003** | **479,591** |
| Profit for the year | **-** | **117,665** | **-** | **-** | **-** | **-** | **117,665** |
| Transfer to contingency reserve | **-** | **(8,236)** | **8,236** | **-** | **-** | **-** | **-** |
| Movement in fair value of available-for-sale financial assets | **-** | **-** | **-** | **-** | **-** | **20,084** | **20,084** |
| **Balance at 31 December 2006** | **10** | **464,254** | **24,989** | - | - | **128,087** | **617,340** |

# Cash flow statement
For the year ended 31 December 2006

| | Notes | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| *Cash flows from operating activities* | | | |
| Cash used in operations | 22.1 | (53,190) | (32,947) |
| Income tax refund / (paid) | 22.2 | 3,556 | (8,181) |
| **Net cash used in operating activities** | | (49,634) | (41,128) |
| *Cash flows from investing activities* | | | |
| Purchases: available-for-sale financial assets | | (614,822) | (274,955) |
| Disposals: available-for-sale financial assets | | 676,662 | 286,102 |
| Purchase of furniture, equipment & motor vehicles | 5 | (1,717) | (1,970) |
| Proceeds from sale of furniture, equipment & motor vehicles | | 158 | 161 |
| Proceeds from sale of non-capital equipment | | - | 2 |
| **Net cash generated from investing activities** | | 60,281 | 9,340 |
| **Net increase / (decrease) in cash and cash equivalents for the year** | | 10,647 | (31,788) |
| **Cash and cash equivalents at beginning of year** | | 26,822 | 58,610 |
| **Cash and cash equivalents at end of year** | 2.5 | 37,469 | 26,822 |

# Notes to the financial statements
For the year ended 31 December 2006

## 1. General information

The Company is a public company, incorporated and domiciled in South Africa and is licensed as a Short-term insurer by the Financial Services Board.

## 2. Summary of significant accounting policies

The following are the principal accounting policies of the Company, which have been applied on a basis consistent with the previous year, unless otherwise stated.

### 2.1 Basis of presentation

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice ("GAAP"). The financial statements are prepared under the historical cost basis as modified by the revaluation of certain financial assets and liabilities.

The preparation of financial statements in conformity with GAAP requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

All amounts in the financial statements are shown in thousands of Rands, rounded to the nearest thousand, unless otherwise stated.

### 2.2 Furniture, equipment and motor vehicles

Furniture, equipment and motor vehicles are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to reduce their cost to their residual values over their estimated useful lives as follows:

- Furniture & fittings 5 – 10 years
- Motor vehicles 4 – 5 years
- Computer equipment 3 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted as appropriate. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of furniture, equipment and motor vehicles are determined by comparing proceeds with carrying amounts, and are included in the income statement.

## 2.3 Financial assets

The Company's financial assets can be split into three categories – investments, reinsurance assets and other receivables.

### *Investments*

Investments are classified either as available-for-sale financial assets or financial assets at fair value through profit or loss. Management determines the classification of its investments at initial recognition and re-evaluates this at each reporting date.

### *Available-for-sale financial assets*

***Recognition & measurement***

Available-for-sale assets are non-derivative financial assets that are not classified in any of the other categories, and comprise equity and debt securities. Available-for-sale investments are intended to be held for an indefinite period of time, but may be sold in response to liquidity or other needs.

These investments are initially recognised at cost, including transaction costs, and are subsequently carried at fair value. Unrealised gains or losses arising from changes in fair value are recognised in equity.

When these investments are sold or impaired, the accumulated fair value adjustments are released from equity and included in the income statement as net realised gains / losses on financial assets.

Investments are derecognised when the rights to receive cashflows from investments have ceased or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

***Impairment***

The Company assesses at each balance sheet date whether there is objective evidence that an available-for-sale financial asset is impaired, including a significant or prolonged decline in the fair value of the security below its cost. If any such evidence exists, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

### *Financial assets at fair value through profit and loss*

Financial assets are classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading financial assets.

These investments are initially recognised at cost, including transaction costs, and are subsequently carried at fair value. The fair values of quoted equities are based on current bid prices and quoted bonds are based on market value. Unrealised gains and losses arising from changes in fair value are recognised in profit or loss.

### *Reinsurance assets*

Receivables arising from reinsurance contracts are accounted for as described in note 2.7 and are reviewed for impairment as part of the impairment review of other receivables.

### *Other receivables*
Other receivables are carried at cost, which approximates fair value.

Receivables arising from insurance contracts, including but not limited to policyholder balances and pipeline premiums, are classified in this category, but disclosed separately on the balance sheet as "Insurance assets", and are designated at fair value with changes in fair value recorded in profit or loss.

*Impairment*
The Company assesses, at each balance sheet date, whether there is objective evidence that a receivable or group of receivables is impaired. Such receivables are impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the assets ('loss event") and that loss event/s has an impact on the estimated future cashflows of the asset, that can be reliably estimated. Objective evidence that such an asset(s) is impaired includes observable data that comes to the attention of the Company.

The assets may be impaired individually or assessed as a group of assets. If there is objective evidence that an impairment loss has been incurred, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The carrying amount is reduced through an allowance account and the loss is recognised in profit or loss.

## 2.4 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 2.5 Short term investments and Cash & cash equivalents

Cash and cash equivalents: includes cash in hand and deposits held at call with banks, which includes petty cash, the operational bank account and the investment settlement bank account.

Short-term investments are other short-term highly liquid investments that comprise local and foreign denominated currency money market unit trusts, as well as cash held in foreign currencies.

## 2.6 Foreign currency translation

***a) Functional and presentation currency***
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Rands, which is the Company's functional and presentation currency.

***b) Transactions and balances***
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair-value through profit or loss, are reported as part of their fair-value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair-value reserve in equity.

## 2.7 Insurance contracts

The Company issues insurance policies in respect of benefits payable to workmen injured on duty, in terms of the Compensation for Injuries and Diseases Act ("COID Act") and operates under licence to the Compensation Commissioner. These benefits include, but are not limited to, medical costs, temporary loss of income, permanent disablement, sundry costs and pensions, as defined in the COID Act.

***Recognition and measurement***

***Premium***

Premium income (estimated premium and pipeline premium) is recognised in the financial period that the risk incepts. The statutory period of insurance cover is from 01 March to 28 February i.e. annual business. Premium income is shown net of allowances for impairments and write offs.

*a) Estimated premium*

Policyholders project their employees' wages for the insurance period and, based on COIDA rates, an estimated premium for that period is determined. At the end of the period of insurance, the policyholder reports actual wages, which will determine the actual premium. The variance between the estimated premium and actual premium is referred to as "adjustment to estimates".

*b) Pipeline premiums*

This refers to the above-mentioned "adjustment to estimates" i.e. premium which has been "earned" in the current financial period, but will only be declared by the policyholders in the next financial period. In the subsequent financial period, when the actual premium adjustment is ascertained, the pipeline premium accrual is reversed.

Pipeline premiums have been calculated as a percentage of current years estimated premium, currently 15% (2005: 10%). The percentage used is based on prior year's history and economic factors, specifically relating to the construction industry including the current shortage of skills and materials.

Unearned premiums are carried forward and are those proportions of the written premiums that relate to risks that have not expired at the end of the financial year. The proportions unearned are calculated on the $1/365^{th}$ basis.

***Claims & benefits***

The Company has two main categories of claims and benefits, as detailed below:

*a) Capitalised Value of Pensions*

The Capitalised Value of Pensions ("CVP") liability is the present value of future liabilities and administration expenses, net of any investment income that may be earned. The liability is based on assumptions as to future pension increases, mortality and morbidity, management expenses and investment income, which are reviewed for reasonableness by management on an annual basis.

This liability is recalculated at each balance sheet date, using the assumptions above. Independent actuarial valuations of the CVP are carried out annually and adjusted for any changes in the assumptions. Adjustments to the liability are charged to income as incurred.

*b) Claims*

Claims and loss adjustment expenses are charged to income as incurred, based on the estimated liability for compensation. They include all costs incurred and arise from events that have occurred up to the balance sheet date, even if they have not yet been reported to the Company. The Company does not discount its liabilities for unpaid claims.

Liabilities for unpaid claims are calculated based on an estimated average cost per claim for each underwriting year. The incurred but not reported claims ("IBNR") are based on estimated unreported claims. The average cost per claim is based on the actual claims paid and awards made, and estimated outstanding costs (based on the latest and most reliable information available), and the number of claims registered.

***Liability adequacy test in respect of claims and benefits***

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best estimates of future cashflows and administration expenses, as well as investment income, are used. Any deficiency is immediately charged to income.

***Reinsurance***

The contract entered into by the Company with reinsurers under which the Company is compensated for losses meets the insurance classification requirements in this note, and are classified as reinsurance contracts held.

*Reinsurance recoveries* are the benefits to which the Company is entitled under its reinsurance contract in respect of claims and benefits incurred. The amounts recoverable are dependent on the expected claims and benefits, as described above, and are calculated in accordance with the terms and conditions of the reinsurance agreement.

*Reinsurance assets* are the unsettled amounts due and payable by the reinsurers in respect of reinsurance recoveries to which the Company is entitled under its reinsurance contract. These assets consist of short-term balances due from reinsurers, which are classified as other receivables, and longer-term receivables, which are classified as reinsurance assets.

*Reinsurance premium (Premium revenue ceded)* are the premiums payable in respect of the reinsurance contract, including the anticipated liability in respect of pipeline premiums and are recognised as an expense when incurred. In certain cases retrospective reinsurance premiums are paid (reinstatement premiums), which are charged to income as incurred.

*Reinsurance liabilities* are premiums outstanding in respect of the reinsurance contract.

The Company assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the asset to its recoverable amount and recognises that impairment in the income statement. The Company gathers the objective evidence that a reinsurance asset is impaired, and accounts for the impairment loss using the same process adopted for other receivables. These processes are described in Note 2.3.

***Rebates***

Rebates are paid to policyholders with low claims experiences, specifically to recognise and reward health and safety.

Rebates are paid 2½ years after the inception of an underwriting period. The amount paid is based primarily on the policyholder's claims experience in respect of that underwriting year, and calculated as a percentage of premium paid.

In each underwriting year a provision for rebates, to be paid in 2½ years, is made. The provision is calculated at 25% (2005: 25%) of premium income, and any shortfall / excess in the provision is charged / released to income in the year of payment.

***Receivables and payables related to insurance contracts***

Receivables and payables are recognised when due. These include amounts due to and from policyholders, including, but not limited to, premiums, refunds and rebates.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the receivable to its recoverable amount and recognises that impairment in the income statement.

## 2.8 Income tax

Flowing from the income tax exemption granted by the South African Revenue Service, during the 2006 financial year, deferred income tax has been reversed and no income tax has been accounted for in the current financial year, in respect of the operating activities of the current financial year.

## 2.9 Employee benefits

***Retirement obligations***
The Company operates a defined contribution provident fund. Under a defined contribution plan the Company pays contributions to a privately administered provident fund on a mandatory, contractual basis. The contributions are recognised as an employee benefit expense when they are due.

## 2.10 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## 2.11 Revenue recognition

***a) Investment income***
Investment income on financial assets: debt securities is recognised using the effective interest rate method, which is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset. The calculation includes all fees, transaction costs and premiums or discounts on the instrument. The amount is charged / credited to income as part of interest income on debt securities.

Investment income on money market instruments (cash & cash equivalents and short term investments) is recognised in the income statement as earned i.e. the accrual basis.

***b) Dividend income***
Dividend income for available-for-sale equities is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

## 2.12 Leases

***Operating leases***
Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 2.13 Statutory contingency reserve

In terms of the reserving requirements of the Short-term Insurance Act of 1998, the Company is required to hold 10% of gross premiums received less approved reinsurance as a statutory contingency reserve. The required reserve is reviewed annually and adjusted as appropriate. The utilisation of this reserve, in the event of a catastrophe, is subject to the approval of the Registrar of Short-Term Insurance.

# 3. Critical accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

***a) The ultimate liability arising from claims made under insurance contracts:***
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. These uncertainties will also have a direct impact on the reinsurance assets:

- Liabilities for unpaid claims are calculated based on an estimated average cost per claim for each underwriting year (see note 2.7). Due to the nature of the claims (injuries and long tail), uncertainty exists regarding the future costs. The impact of HIV / AIDS on claims and benefits is accounted for when calculating the average cost of a claim.

- Liabilities in respect of incurred but unreported claims ("IBNR"), are based on the average claims cost as detailed above and the estimated, unreported number of claims for the current and previous two years. The unreported claims are calculated based on history and may differ from the actual number of claims reported.

- The capitalised value of pensions ("CVP") liability is the present value of future liabilities and administration expenses, net of any investment income that may be earned (see note 2.7). The liability is based on assumptions as to future pension increases, mortality & morbidity, management expenses and investment income, which are reviewed by management on an annual basis for reasonableness, and results in uncertainty regarding the future liabilities;
    - o Future pension increases are assumed to be at the current CPI (Consumer Price Index);
    - o Mortality & morbidity are based on the most recent South African life expectancy tables, including an adjustment in respect of the impact of AIDS / HIV and the level of disablement in respect of employees;
    - o Future management expenses are based on the forthcoming year's budget, and are determined as an average cost per pensioner. Future increases in respect of management expenses are assumed at CPI +1%;
    - o Future investment income is based on the effective interest yield of nominated Government bonds (currently the R157 and inflation-linked bonds, being the R189 and R197) as at the financial year-end.

  A sensitivity analysis in respect of a change in the net discount factor and the impact of HIV / AIDS, is presented in note 14.2.

***b) The ultimate liability arising in respect of rebates:***
Rebates are provided for in the year in which premium is written (see note 2.7). The rebate provision is based on a percentage of premium income. The percentage used is based on management intention in that financial year, but the ultimate payment of rebates may differ from the original provision. The amount payable is at the discretion of the Board.

The percentage used is reviewed annually and adjustments to previous provisions are made as necessary.

***c) Pipeline premium and all related financial liabilities:***

Pipeline premium has been calculated as a percentage of estimated premium (see note 2.7). The percentage used is based on management's judgement, using history and other industry information available, but the ultimate premium received in respect of pipeline premiums may differ from the original provision. All related liabilities, reinsurance, unearned premium liability and rebates are subject to the same uncertainty.

Differences between the actual premium adjustment and pipeline premium are accounted for in the following financial period, once reported by policyholders. The percentage used is reviewed annually.

***Sensitivity analysis***

Below is the impact on profit for the year if the 15% currently provided is actually 7.5% or 20%

| | 2006 R'000 |
|---|---|
| The impact on profit for the year at 15% as provided | 7 611 |
| The impact on profit for the year at 7.5% | 217 |
| Variance from 15 % | (7 394) |
| The impact on profit for the year at 20% | 12 540 |
| Variance from 15% | 4 929 |

***d) Impairment of available-for-sale equity financial instruments:***

The Company determines that available-for-sale equity financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement the Company evaluates, among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cashflow.

Had all the declines in fair values below cost been considered significant or prolonged, the Company would have suffered an additional loss of R5,4 million in its 2006 (2005: R0,6 million) financial statements, being the transfer of the total equity reserve for unrealised losses to the income statement.

# 4. Management of risk

## 4.1 Insurance risk

The Company issues insurance policies in respect of benefits payable to employees injured on duty, in terms of the Compensation for Injuries and Diseases Act ("COID Act") and operates under license to the Compensation Commissioner. These benefits include, but are not limited to, medical costs, temporary loss of income, permanent disablement, sundry costs and pensions, as defined in the COID Act.

*Medical costs* include all medical expenditure (e.g. hospitalisation, consultations and medication) incurred as a result of an injury on duty.

*Temporary loss of income* refers to payments made in respect of the loss of wages as a result of being off work.

*Permanent disablement* is a lump sum payout to employees as a result of a defined permanent injury / disability, which is not severe enough to prevent the individual from working again, but rather compensation for the minor injury / disablement.

*Sundry costs* relate to all other expenditure, as defined in the COID Act, which are incurred as a result of the work injury.

*Disability pensions* are paid to employees who are disabled as a result of the work-related injury or disease, and are paid until the pensioner dies.

*Pensions* are paid to the dependant(s) (widows and children) of employee's who have died as a result of a work-related injury or disease. The pensions paid to widows are paid until the widow dies, and pensions to children are paid until the child turns 18.

The risk under an insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

Where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the premiums charged. This could occur because of the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number of claims and benefits will vary from year to year from the estimates using established statistical techniques.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and the type of industry covered.

***Workmen's Compensation Insurance***

The Company only covers one type of insurance risk, namely workmen's compensation, for the construction industry throughout South Africa. The Company has unlimited exposure in respect of claims and benefits, which vary depending on the severity and nature of the accident and injury. The premium rates are determined by the Compensation Commissioner ("CC"), which are reviewed and recalculated on an annual basis. Class V has various "sub-classes" / industry classifications, each with their own rate. To date the rates determined by the CC have been adequate to cover the cost of claims and pensions awarded by the Company.

***Risks***

The most significant risk to the Company at present is the lack of skills in the construction industry, coupled with the high level of construction activity within South Africa, exposing the Company to an increase in the number of accidents, and therefore injuries, on duty.

In respect of costs incurred in the rehabilitation of the injured employee, the Company is also exposed to the effect of HIV / AIDS in respect of recovery periods – the longer the period of recovery the higher the costs incurred, or, due to the inability to recover fully, a pension may be awarded; this risk may be alleviated by the introduction of antiretroviral drugs & AIDS / HIV awareness campaigns.

The risk of fraudulent claims and or pensions is mitigated by good systems of internal controls and segregation of duties within the claims departments. All claims reported and registered are matched / linked to in-force policies and good communication with the policyholders (employers of injured workmen) exists. A pension can only be created if a claim has been registered, and thereafter we are exposed to fraud in respect of:

- *Identity fraud* e.g. a pensioner dies (and the family does not inform FEM) and an individual obtains a false identity document ("ID") and presents themselves as this pensioner. This risk is reduced by comparing ID documents on file to the fictitious pensioner's ID.
- *Unreported deaths* e.g. an individual dies and the family does not inform FEM and therefore FEM continues paying the monthly pension. This risk exists for a maximum period of 12 months as annual life certificate confirmations are requested, together with a copy of their ID. If the necessary documentation is not received by 30 June each year, the pension is suspended.

The Company is bound by the rates and benefits of the Compensation Commissioner, in conjunction with the provisions of COIDA. The risk of rates and benefits being mismatched is low and the Company has a good working relationship with the Compensation Office.

***Management of risks***

Rates are reviewed annually based on costs incurred and accidents registered relative to the premium income generated.

FEM is on a drive to promote health and safety in the construction industry and, where required, assists policyholders to improve their safety via site visits, training, sponsorships etc. FEM also recognises excellent safety records via its rebate programme (see note 2.7)

***Sources of uncertainty in the estimation of future claim payments***

Claims are payable on a claims-occurrence basis and therefore the Company is liable for all insured events that occurred during the period of insurance, even if the loss is only discovered after the end of the contract term. Accidents are generally reported within the year incurred (87%), and by the end of the following year, 99% of accidents have been reported. Claims payments however, take longer with between only 50% and 60% of costs being paid in the year of the accident, and up to 90% being paid by the end of the following year. As a result, the estimation of outstanding costs is based on the best available information and knowledge at each year-end. Given the uncertainty as a result of the factors above, it is likely that the final outcome will be different from the original liabilities (outstanding estimates and IBNR) raised. The pensions liability is also exposed to assumptions made at the end of each year. A sensitivity analysis of these assumptions is provided in the pension liability note 14.2. (See note 3 regarding areas of judgement).

***Claims and benefits***

Claims and benefits, including the number of accidents per region, are tabled below:

| | Claims Costs R'000 | Pensions awarded R'000 | Accidents registered |
|---|---|---|---|
| **2006** | | | |
| Johannesburg | 38,880 | 12,759 | 3,520 |
| Cape Town | 21,817 | 5,777 | 3,328 |
| Durban | 12,961 | 6,486 | 1,295 |
| Pretoria | 8,814 | 5,350 | 1,041 |
| **Total** | **82,472** | **30,372** | **9,184** |
| **2005** | | | |
| Johannesburg | 27,750 | 10,221 | 3,167 |
| Cape Town | 17,653 | 4,112 | 3,299 |
| Durban | 6,692 | 2,609 | 1,278 |
| Pretoria | 11,323 | 589 | 976 |
| **Total** | **63,418** | **17,531** | **8,720** |

## 4.2. Financial risk

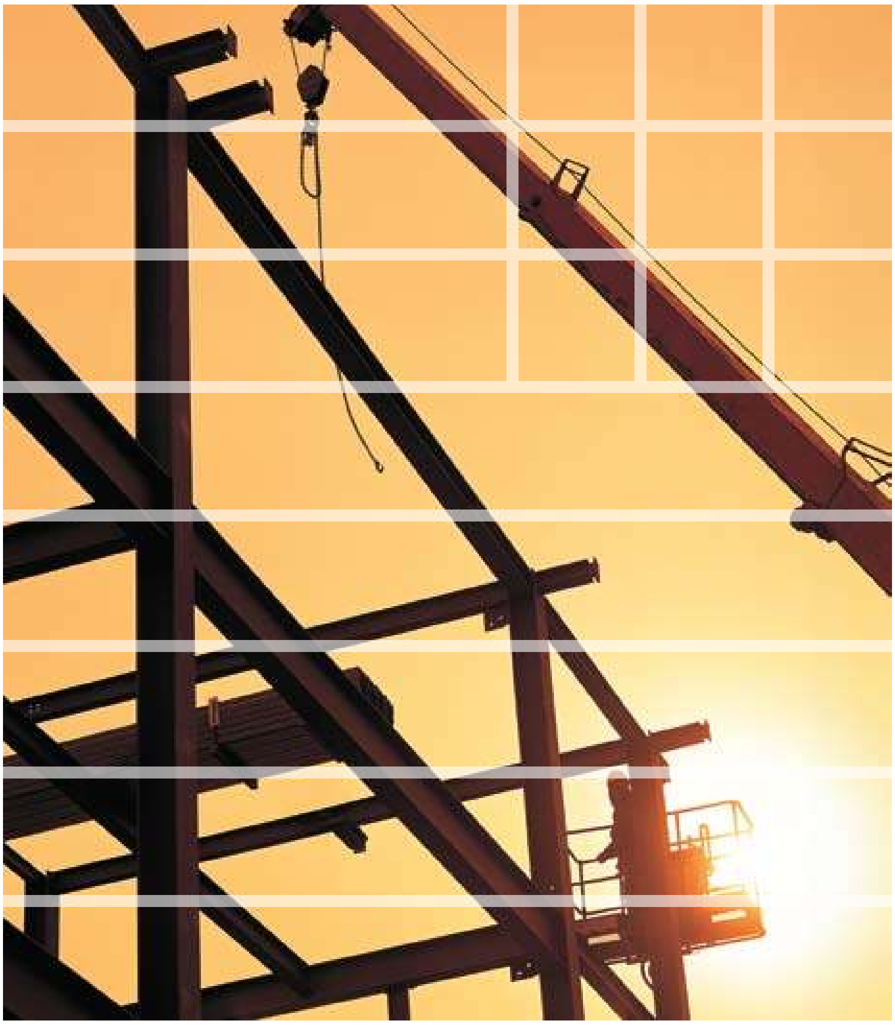
The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. The key financial risk is that the proceeds from its financial assets are not sufficient to cover the obligations arising from its insurance contracts. The main components are interest rate risk, equity price risk and credit risk.

### 4.2.1 Interest-rate risk

The Company holds 42% (2005: 50%) of its available-for-sale financial assets in debt securities (Government Bonds and Public Utility Bonds) and the remainder of investments are invested in equities and money market unit trusts. The return on these instruments, and market value of debt securities are affected by fluctuations in interest rates.

Excluding the movement in the pensions liability and rebates provision, which is discretionary, the Company currently covers all insurance claims and benefits from operational cash, and therefore is not dependent on investment income to sustain the insurance operations.

The pensions liability is actuarially valued on an annual basis, which is impacted by the future anticipated interest return – see note 14.2.



### 4.2.2 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas of exposure are:

- reinsurers' share of insurance liabilities,
- amounts due from reinsurers' in respect of claims payments already made, and
- amounts due from policyholders.

***Reinsurers***

The credit worthiness of reinsurers is considered on an annual basis by reviewing their financial strength before finalising any contract. The Company's reinsurance liabilities are covered by four diverse reinsurers.

***Policyholders***

The premium written is distributed nationally, among varying employers' classified as Class V in terms of the Compensation Commissioner's industrial classification table.

### 4.2.3 Liquidity risk

The Company is exposed to daily calls on its available cash resources, mainly from short term claims. Liquidity risk is the risk that cash resources are not available to pay claims when due. The Company ensures that adequate levels of cash are available immediately without incurring penalties.

### 4.2.4 Equity price risk

This is the risk that the Company will not realise the value of its equity securities, which may impact the Company's ability to meet liabilities. In terms of the Company's licence from the Compensation Commissioner, a minimum value of investments, to cover all insurance liabilities, must be invested in low-risk / no-risk instruments, and therefore all equity securities are considered "surplus assets".

| | Furniture & fittings | Office equipment | Computer equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| **5. FURNITURE, EQUIPMENT AND MOTOR VEHICLES** | | | | | |
| ***Year ended 31 December 2006*** | | | | | |
| **Opening cost** | **1,221** | **343** | **1,739** | **4,166** | **7,469** |
| **Opening accumulated depreciation** | **(710)** | **(177)** | **(1,106)** | **(2,327)** | **(4,320)** |
| **Opening net book amount** | **511** | **166** | **633** | **1,839** | **3,149** |
| **Additions** | **41** | **158** | **254** | **1,264** | **1,717** |
| **Disposals** | **(2)** | **–** | **(2)** | **(186)** | **(190)** |
| **Depreciation charge** | **(195)** | **(68)** | **(324)** | **(793)** | **(1,380)** |
| **Closing net book amount** | **355** | **256** | **561** | **2,124** | **3,296** |
| ***At 31 December 2006*** | | | | | |
| **Cost** | **1,253** | **501** | **1,879** | **3,763** | **7,396** |
| **Accumulated depreciation** | **(898)** | **(245)** | **(1,318)** | **(1,639)** | **(4,100)** |
| **Net book amount** | **355** | **256** | **561** | **2,124** | **3,296** |
| *Year ended 31 December 2005* | | | | | |
| Opening cost | 1,217 | 237 | 1,363 | 3,488 | 6,305 |
| Opening accumulated depreciation | (595) | (160) | (1,165) | (1,834) | (3,754) |
| Opening net book amount | 622 | 77 | 198 | 1,654 | 2,551 |
| Additions | 90 | 135 | 655 | 1,090 | 1,970 |
| Disposals | (15) | – | (4) | (128) | (147) |
| Depreciation charge | (186) | (46) | (216) | (777) | (1,225) |
| Closing net book amount | 511 | 166 | 633 | 1,839 | 3,149 |
| *At 31 December 2005* | | | | | |
| Cost | 1,221 | 343 | 1,739 | 4,166 | 7,469 |
| Accumulated depreciation | (710) | (177) | (1,106) | (2,327) | (4,320) |
| Net book amount | 511 | 166 | 633 | 1,839 | 3,149 |

Depreciation expenses of R1,380k (2005: R1,226k) have been charged to management expenses (Note 21).

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| **6. FINANCIAL ASSETS** | | |
| *6.1 Available-for-sale financial assets* | | |
| Equity securities | | |
| - listed | **439,177** | 389,379 |
| Debt securities | | |
| - listed: fixed interest rate | **469,109** | 417,987 |
| - listed: floating interest rate | **20,041** | 84,730 |
| | **928,327** | 892,096 |
| *Financial assets at fair value through profit or loss* | | |
| -Fair value adjustments | **(1,308)** | - |
| **Total investments** | **927,019** | **892,096** |
| *6.2 Movement available-for-sale financial assets* | | |
| At the beginning of year | **903,052** | 666,844 |
| Additions | **603,186** | 453,495 |
| Disposals | **(546,866)** | (335,090) |
| Fair value net (losses) / gains through NDR | **(18,158)** | 117,803 |
| **At end of year** | **941,214** | 903,052 |
| Market value | **928,327** | 892,096 |
| Accrued income (Note 9) | **12,887** | 10,956 |
| | **941,214** | 903,052 |

A requirement of the Company's licence is to hold assets which comply with the requirements of Regulation 34 of the regulations made under section 76 of the Insurance Act 1943, (as amended and substituted from time to time), regulating the composition of the assets to be held in respect of insurance business, to cover specified insurance liabilities of the Company - minimum required assets. This minimum requirement is R702,6 million (*2005: R579,2 million*) and qualifying assets totalled R929,8 million (*2005: R860,5 million*).

Derivatives trading consists of the buying and selling of futures contracts on the JSE all share index.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| **7. REINSURANCE ASSETS** | | |
| Reinsurers' share of insurance liabilities | **12,861** | 8,303 |

Amounts due from reinsurers in respect of claims already paid by the Company, are included in other receivables.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| **8. INSURANCE ASSETS** | | |
| Pipeline premium accrued | **30,355** | 14,583 |
| Due from policyholders | **5,213** | 2,793 |
| *Less* provision for impairment of amounts due from policyholders | **(1,006)** | (1,093) |
| | **34,562** | 16,283 |

There is little concentration of credit risk with respect to the amounts due from policyholders, as the Company has a number of nationally dispersed policy holders.

The Company has recognised a loss of R0,49 million (*2005: R0,54 million*) for the impairment of amounts due from policyholders, which has been set off against estimated premium income (Note 17).

| | 2006 R'000 | 2005 R'000 |
|---|---|---|

## 9. OTHER RECEIVABLES

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| Accrued investment income - financial assets | **13,742** | 12,206 |
| Accrued investment income - SARS | **–** | 818 |
| Reinsurance receivables | **2,323** | 1,414 |
| Prepayments | **231** | 132 |
| Related parties | **3** | 25 |
| Other | **750** | 158 |
| | **17,049** | 14,753 |

There is no concentration of credit risk with respect to the other receivables, as the amounts due are from various sources (Government, private sector, four reinsurers).

## 10. SHORT TERM INVESTMENTS

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| Money market unit trusts | **238,370** | 67,704 |

The effective interest rate received on money market unit trusts was 7.08% (*2005: 7.23%*).

## 11. SHARE CAPITAL

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| Authorised and issued | | |
| 500,000 ordinary shares of 2 cents each | **10** | 10 |
| (*2005: 500,000 ordinary shares of 2 cents each*) | | |

There has been no movement in the authorised and issued share capital of the Company for the year.

## 12. OTHER RESERVES

### *12.1 Statutory contingency reserve*

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| Opening balance | **16,753** | 12,943 |
| Movement | **8,236** | 3,810 |
| **Closing balance** | **24,989** | 16,753 |
| **Total other reserves** | **153,076** | 124,756 |

Total other reserves comprise the following balances (Notes 12.1 - 12.2):

In terms of the reserving requirements of the Short-term Insurance Act of 1998, FEM is required to hold 10% of gross premiums received less approved reinsurance as a statutory contingency reserve.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| **12. OTHER RESERVES (continued)** | | |
| ***12.2 Asset revaluation reserve*** | | |
| Opening balance - revaluation | **146,245** | 103,092 |
| Movement | **(18,158)** | 43,153 |
| **Closing balance – revaluation** | **128,087** | 146,245 |
| Opening balance - deferred tax on revaluation | **(38,242)** | (27,828) |
| Movement | **38,242** | (11,376) |
| Movement - change in rate | **–** | 962 |
| **Closing balance – deferred tax on revaluation** | **–** | (38,242) |
| Total opening balance - net | **108,003** | 75,264 |
| Total movement for the year | **20,084** | 32,739 |
| **Total closing balance – net** | **128,087** | 108,003 |

The investment revaluation reserve takes account of the market value movements in available-for-sale financial assets.

## 13. TAX

### *13.1 Deferred tax*

The deferred tax assets and liabilities are attributable to the following items:

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| *Deferred income tax assets:* | | |
| - Provisions | **–** | 14,117 |
| *Deferred income tax liabilities:* | | |
| - Investment revaluation | **–** | (38,242) |
| - Pipeline premium provisions | **–** | (2,082) |
| | **–** | (40,324) |
| **Total** | **–** | (26,207) |

Deferred income tax balances have been reversed as a result of the Company been approved as an income tax exempt entity during the 2006 financial year.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| ***13.1 Deferred tax (continued)*** | | |
| The movement on the deferred income tax liability account is as follows: | | |
| At beginning of year | **(26,207)** | (13,550) |
| Income statement charge | **(12,035)** | (2,243) |
| Investment revaluation – reversal of deferred tax on asset revaluations | **38,242** | (10,414) |
| At end of year | **–** | (26,207) |
| ***13.2 Normal and deferred tax*** | | |
| South African normal tax 0% (2005: 29%) | | |
| Current tax | | |
| – current year | **–** | 7,259 |
| – prior years under provision | **2,005** | 2,359 |
| | **2,005** | 9,618 |
| Deferred tax | | |
| – current year | **12,035** | 1,474 |
| – change in rate | **–** | 476 |
| – prior years under provision | **–** | 293 |
| | **12,035** | 2,243 |
| **Total tax charge** | **14,040** | 11,861 |
| No current income tax has been accounted for as the Company has been exempted from income tax in 2006. | | |
| Profit before tax | **131,705** | 43,287 |
| Tax calculated at 0% (*2005: 29%*) | **–** | 12,553 |
| Income not subject to tax | **–** | (4,519) |
| Prior years under provision – deferred tax | **–** | 293 |
| Capital gains tax | **–** | 563 |
| Prior years under provision – current tax | **2,005** | 2,359 |
| Deferred tax reversal | **12,035** | - |
| Expenses not deductible for tax purposes | **–** | 136 |
| Change in rate | **–** | 476 |
| **Tax charge** | **14,040** | 11,861 |
| Effective rate of tax | **11%** | 27% |

| | | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| **14. INSURANCE LIABILITIES AND REINSURANCE ASSETS** | | | |
| *Gross* | | | |
| Outstanding claims | Note 14.1 | **115,494** | 104,331 |
| Capitalised value of pensions | Note 14.2 | **372,057** | 311,001 |
| Unearned premiums | Note 14.3 | **37,930** | 28,439 |
| Provision for rebates - non-current | Note 14.4 | **67,124** | 43,511 |
| Provision for rebates - current | Note 14.4 | **47,279** | 35,637 |
| **Total insurance liabilities – gross** | | **639,884** | 522,919 |
| *Recoverable from reinsurers* | | | |
| Outstanding claims recoveries | Note 7 | **12,861** | 8,303 |
| **Total net insurance liabilities** | | **627,023** | 514,616 |
| *14.1 Outstanding and unintimated claims* | | | |
| Outstanding claims - reported claims | | **99,130** | 89,555 |
| Incurred but not reported ("IBNR") | | **16,364** | 14,776 |
| | | **115,494** | 104,331 |

The risks associated with the number of accidents registered and the future claims to be paid are difficult to predict and the liability therefore contains an element of uncertainty. The outstanding claims estimate is based on the average cost of a claim for each underwriting year, less claims paid and pension awards made to date. The average cost per claim is recalculated at each year end to ensure that the estimate is updated and correctly reflects the future anticipated costs. The IBNR liability is based on historical trends which best reflect the future claims to be registered in respect of past underwriting periods.

*Movement in outstanding claims and IBNR*

| *2006* | | *Gross* | *Reinsurance* | *Net* |
|---|---|---|---|---|
| *Claims and benefits* | | | | |
| Notified claims | | 89,555 | (8,303) | 81,252 |
| Incurred but not reported | | 14,776 | - | 14,776 |
| **Total at beginning of year** | | 104,331 | (8,303) | 96,028 |
| Cash paid for settled claims | | (81,652) | 6,505 | (75,147) |
| Pensions awarded | | (31,192) | - | (31,192) |
| Increase in liabilities | | 124,007 | (11,063) | 112,944 |
| - arising from current year claims | | 106,947 | (5,236) | 101,711 |
| - arising from prior year claims | | 17,060 | (5,827) | 11,233 |
| **Total at end of year** | | **115,494** | **(12,861)** | **102,633** |
| Notified claims | | 99,130 | (12,861) | 86,269 |
| Incurred but not reported | | 16,364 | - | 16,364 |
| **Total at end of year** | | **115,494** | **(12,861)** | **102,633** |
| **Movement for the year** | Note 20 | **11,163** | **(4,558)** | **6,605** |

*Movement in outstanding claims and unintimated claims (continued)*

| *2005* | | *Gross* | *Reinsurance* | *Net* |
|---|---|---|---|---|
| *Claims and benefits* | | | | |
| Notified claims | | 63,754 | (5,938) | 57,816 |
| Incurred but not reported | | 10,752 | - | 10,752 |
| **Total at beginning of year** | | 74,506 | (5,938) | 68,568 |
| Cash paid for settled claims | | (63,418) | 4,423 | (58,995) |
| Pensions awarded | | (17,532) | - | (17,532) |
| Increase in liabilities | | 110,775 | (6,788) | 103,987 |
| - arising from current year claims | | 101,486 | (3,422) | 98,064 |
| - arising from prior year claims | | 9,289 | (3,366) | 5,923 |
| **Total at end of year** | | 104,331 | (8,303) | 96,028 |
| Notified claims | | 89,555 | (8,303) | 81,252 |
| Incurred but not reported | | 14,776 | - | 14,776 |
| **Total at end of year** | | 104,331 | (8,303) | 96,028 |
| **Movement for the year** | Note 20 | 29,825 | (2,365) | 27,460 |

*Claims development (Outstanding claims, accidents registered and average claims costs)*

The development of gross outstanding claims for the last five years is shown below:

| *Accident / underwriting year* | *prior to 2003* | *2003* | *2004* | *2005* | *2006* |
|---|---|---|---|---|---|
| Estimate of ultimate claims costs (including IBNR) | | | | | |
| - at end of underwriting year | 58,700 | 68,365 | 76,838 | 102,486 | 106,947 |
| - one year later | 55,856 | 76,927 | 78,102 | 102,813 | - |
| - two years later | 55,112 | 78,196 | 78,953 | - | - |
| - three years later | 56,056 | 77,820 | - | - | - |
| - four years later | 71,776 | - | - | - | - |
| Current estimate of cumulative claims | 71,776 | 77,820 | 78,953 | 102,813 | 106,947 |
| Cumulative payments & pension awards to date | (52,251) | (69,659) | (67,817) | (76,492) | (56,596) |
| Liability recognised in balance sheet | 19,525 | 8,161 | 11,136 | 26,321 | 50,351 |
| **Total liability recognised in the balance sheet** | | | | | 115,494 |

The development of accidents registered for the last five years is shown below:

| *Accident / underwriting year* | *2002* | *2003* | *2004* | *2005* | *2006* |
|---|---|---|---|---|---|
| - at end of underwriting year | 5,939 | 6,472 | 7,186 | 7,745 | 7,998 |
| - one year later | 6,814 | 7,296 | 8,077 | 8,862 | - |
| - two years later | 6,867 | 7,352 | 8,125 | - | - |
| - three years later | 6,882 | 7,367 | - | - | - |
| - four years later | 6,885 | - | - | - | - |

The development of average cost of claims for the last five years is shown below:

| *Accident / underwriting year* | *prior to 2003* | *2003* | *2004* | *2005* | *2006* |
|---|---|---|---|---|---|
| - at end of underwriting year | 8,400 | 9,000 | 9,125 | 11,400 | 12,669 |
| - one year later | 8,000 | 10,340 | 9,350 | 11,218 | - |
| - two years later | 7,880 | 10,500 | 9,453 | - | - |
| - three years later | 8,000 | 10,212 | - | - | - |
| - four years later | 8,031 | - | - | - | - |

(including costs of claims registered before 2002)

| | | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| ***14.2 Capitalised Value of Pensions*** | | | |
| Opening balance | | **311,001** | 273,222 |
| Transfer from income statement | Note 20 | **61,056** | 37,779 |
| Closing balance | | **372,057** | 311,001 |

Independent actuarial valuations of the capitalised value of pensions liability are ordinarily carried out every year. The most recent valuations were done at 31 December 2006 and December 2005.

The principal actuarial assumptions utilised in the calculation of the liability are as follows:

| | 2006 | 2005 |
|---|---|---|
| *Pensions liability assumptions* | | |
| Investment return | **7.5%** | 7.5% |
| Annual pensions increases | **5.0%** | 4.5% |
| Real discount rate | **2.5%** | 3.0% |
| *Expense assumptions* | | |
| Administration cost per pensioner | **R 1,170** | R 1,025 |
| Investment return | **7.5%** | 7.5% |
| Inflation | **6.0%** | 5.5% |
| Real discount rate | **1.5%** | 2.0% |

**Assumptions used**

*Mortality & morbidity*

As with 2005, the non-AIDS mortality assumptions are based on the SA8590 Heavy standard table, with adjustments based on duration and severity of disablement.

*Economic assumptions*

The discount factors in respect of investment income, future pension increases and management expense inflation have all been revised in line with the change in the economic environment, and are explained individually below:

*Investment income:*

Investment income returns remained the same as in 2005 at 7.5%, with reference to the yields at valuation date on the South African Government R189 and R197 CPI bonds and the R157 bond.

*Pension increases:*

Future pension increases granted by the Compensation Commissioner are expected to be in line with CPI, and the Company has therefore assumed an increase of 5%, within the Reserve Bank's target inflation range.

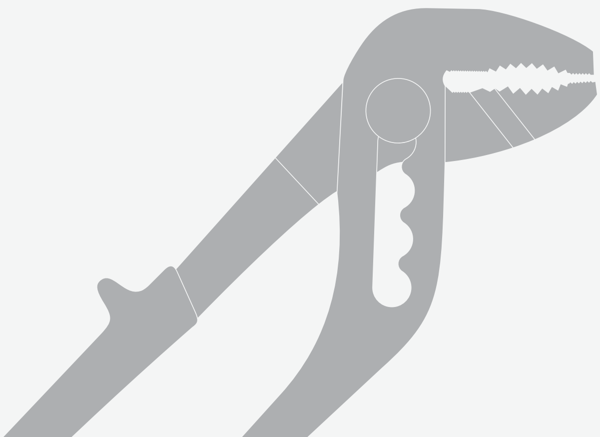
*Expense increases:*

Expense inflation for 2006 onwards is assumed to be 6% per annum, which maintains the 1% margin above the general inflation assumption.

*Impact of HIV / AIDS*

The actuaries have explicitly modelled HIV infection and AIDS mortality using their internal HIV & AIDS demographic and finanicial model, qAIDS. The rates of new HIV infection on which modelling is based are drawn from models provided by the Actuarial Society of South Africa.

The HIV & AIDS risk of FEM pensioners has been based on a calibrated percentage of the South African national rates of HIV infection by age and sex from the ASSA 2003 AIDS & Demographic model, with some allowance for access to antiretroviral therapy.



| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| ***14.2 Capitalised value of pensions (continued)*** | | |
| *Experience adjustments in respect of independent external actuarial valuation (Performed as at 31 December 2006, and 2005)* | | |
| Opening balance (Valuation 2006 & 2005) | **311,001** | 273,222 |
| Experience Variations | **(5,290)** | - |
| Increase in CVP (new membership, cancellations, new valuation date, normal pension increases) | **10,061** | 11,573 |
| Change in termination and expense basis | **38,084** | 3,980 |
| Adjustment for HIV & AIDS table ASSA 2003 | **–** | (3,501) |
| Change in discount rate and economic assumptions | **18,201** | 25,727 |
| **Closing balance (Valuation 2006 & 2005)** | **372,057** | 311,001 |

***Sensitivity analysis***

There are two critical assumptions made in the valuation of the pensions liability, namely the net discount factor and the impact of HIV / AIDS and Terminations, and a sensitivity analysis of this is summarised below:

| | R'000 | % |
|---|---|---|
| *Net discount factor* | | |
| A 0.5% increase or decrease in the net discount factor would impact the pension liability as follows: | | |
| Current liability | **372,057** | |
| 0.5% increase in net discount rate | **351,787** | |
| *Impact on the liability* | ***(20,270)*** | ***-5.4%*** |
| 0.5% decrease in net discount rate | **394,403** | |
| *Impact on the liability* | ***22,346*** | ***6.0%*** |
| *Impact of Mortality* | | |
| The liability with greater or lower AIDS risk incidence and access to antiretroviral treatment ("ART") would impact the pension liability as follows: | | |
| Current liability | **372,057** | |
| No HIV & AIDS Scenario | **430,587** | |
| *Impact on the liability* | ***58,530*** | ***15.7%*** |
| Higher Mortality (10% Increase in AIDS & Base Mortality) | **359,456** | |
| *Impact on the liability* | ***(12,601)*** | ***-3.4%*** |
| Lower Mortality (10% Decrease in AIDS & Base Mortality) | **384,501** | |
| *Impact on the liability* | ***12,444*** | ***3.3%*** |

***Liquidity***

Claims and benefits are currently funded by operational cash i.e. premium receipts plus investment income, less expenses paid. The Company is not exposed to a high level of liquidity risk as it very rarely pays lump sum benefits to individuals (Commutations need to be approved by the Compensation Commissioner), and only incurs monthly pension payments and normal short-term claims. The cash & cash equivalents and short term investments are adequate to cover all short-term claims at year end.

All insurance liabilities (Note 14), excluding the rebates provision, and the contingency reserve, are covered by bonds (see note 6). Every 6-12 months the duration and future cashflows of the bonds are compared to the duration and future cashflows of the existing pensioners. The last comparison was performed in December 2006 as part of the year end valuation and, prior to that, in August 2006. No material mis-matches were highlighted.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| ***14.3 Movement in unearned premium provision*** | | |
| ***Unearned premium provision*** | | |
| At beginning of year | **28,439** | 22,180 |
| Movement during the period (See note 17 Premium income) | **9,491** | 6,259 |
| - Increase in the period | **37,930** | 28,439 |
| - Release during the period | **(28,439)** | (22,180) |
| **Total at end of year** | **37,930** | 28,439 |

As the reinsurance contract runs from 01 January to 31 December, there is no unearned premium asset in respect of reinsurance.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| ***14.4 Provision for rebates*** | | |
| Opening balance - non-current | **43,511** | 27,292 |
| Transfer to current | **(43,511)** | (27,292) |
| Charge to income statement | **67,124** | 43,511 |
| **Closing balance - non-current** | **67,124** | 43,511 |
| Opening balance - current | **35,637** | 23,424 |
| Charge to income statement | **2,712** | 5,451 |
| Utilised during the year | **(38,347)** | (28,875) |
| Transfer from non-current | **43,511** | 27,292 |
| Charge to income statement 25% | **3,766** | 8,345 |
| **Closing balance - current** | **47,279** | 35,637 |
| Charge to income statement | **73,602** | 57,307 |
| Special rebates paid | **-** | 9,216 |
| **Total charge for rebates paid & provided** | **73,602** | 66,523 |
| ***14.5 Reinsurance liabilities*** | | |
| Minimum deposit premium | **4,286** | 3,481 |
| Pipeline premium | **2,920** | 1,403 |
| **Reinsurance premiums due** | **7,206** | 4,884 |

**15. ACCOUNTS PAYABLE**

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| Investec Asset Managers (Asset management fee) | **3,729** | 312 |
| Staff incentives | **2,494** | 2,019 |
| Accident fund administration | **2,480** | 1,774 |
| SARS (PAYE) | **307** | 289 |
| Outstanding cheques | **534** | 640 |
| Other | **1,583** | 1,033 |
| | **11,127** | 6,067 |

| | Notes | 2006 R'000 | 2005 R'000 |
|---|---|---|---|

## 16. LEAVE PAY ACCRUAL

| | Notes | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| Opening balance | | **918** | 854 |
| Leave pay utilised during the year | | **(325)** | (148) |
| Charge to income statement - leave pay | | **366** | 212 |
| **Closing balance** | | **959** | 918 |

## 17. NET PREMIUM REVENUE

| | Notes | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| *Premium income* | 2.7 | **248,029** | 180,026 |
| Estimated premium, net of allowances and write offs | | **201,971** | 158,873 |
| Pipeline premium - current year | | **30,355** | 14,583 |
| Adjustment to estimates - prior year | | **15,703** | 6,570 |
| *Change in unearned premium provision* | 2.7 | **(9,491)** | (6,259) |
| Estimated premium | | **(6,941)** | (5,837) |
| Pipeline premium | | **(2,550)** | (422) |
| **Premium revenue** | | **238,538** | 173,767 |
| Estimated premium ceded | | **(22,520)** | (18,520) |
| Pipeline premium ceded | | **(1,517)** | (177) |
| **Premium revenue ceded** | 2.7 | **(24,037)** | (18,697) |
| **Net premium revenue** | | **214,501** | 155,070 |

The reinsurance cover for 2006 and 2005 was purchased with an inception date of 1 January, and there is therefore no unearned reinsurance asset at year-end.

## 18. INVESTMENT INCOME

| | Notes | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| Available-for-sale assets | | | |
| - interest income | | **41,794** | 37,157 |
| - dividend income | | **16,052** | 11,805 |
| Short term investment & Cash and cash equivalents | | | |
| - money market unit trusts | | **7,302** | 4,918 |
| - investment bank account | | **2,992** | 1,794 |
| - operational bank account | | **1,097** | 645 |
| - foreign interest received | | **2,063** | - |
| - foreign exchange gains | | **963** | - |
| Sundry income | | **2** | 545 |
| **Investment income** | | **72,265** | 56,864 |

| | | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| **19. NET GAINS ON FINANCIAL ASSETS** | | | |
| Realised gains on financial assets | | | |
| - equity securities | | **140,926** | 77,757 |
| - debt securities | | **2,939** | 3,883 |
| Realised losses on financial assets | | | |
| - equity securities | | **(8,383)** | (1,750) |
| - debt securities | | **(2,773)** | - |
| Fair value movement on derivative asset | | **804** | - |
| **Net realised gains on financial assets** | | **133,513** | 79,890 |

**20. INSURANCE CLAIMS & BENEFITS**

| | | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| *Gross claims* | | **92,815** | 93,243 |
| Claims paid | | **81,652** | 63,418 |
| Movement in claims liabilities | Note 14.1 | **11,163** | 29,825 |
| *Gross pensions* | | **86,224** | 60,986 |
| Pensions paid | | **25,168** | 23,207 |
| Movement in pensions liability | Note 14.2 | **61,056** | 37,779 |
| *Reinsurance* | | **(11,972)** | (7,357) |
| Claims paid recovered from reinsurers | | **(6,505)** | (4,423) |
| Movement in reinsurance assets | Note 14.1 | **(4,558)** | (2,365) |
| Movement in reinsurance receivables | | **(909)** | (569) |
| **Net claims and benefits** | | **167,067** | 146,872 |

| *2006* | **Gross** | **Reinsurance** | **Net** |
|---|---|---|---|
| Current year claims paid | 44,177 | - | 44,177 |
| Prior year claims paid | 37,475 | (6,505) | 30,970 |
| **Total** | **81,652** | **(6,505)** | **75,147** |
| Current year pensions awarded | 12,419 | - | 12,419 |
| Prior year pensions awarded | 17,953 | - | 17,953 |
| **Total** | **30,372** | **-** | **30,372** |

| *2005* | **Gross** | **Reinsurance** | **Net** |
|---|---|---|---|
| Current year claims paid | 33,689 | - | 33,689 |
| Prior year claims paid | 29,729 | (4,423) | 25,306 |
| **Total** | **63,418** | **(4,423)** | **58,995** |
| Current year pensions awarded | 3,661 | - | 3,661 |
| Prior year pensions awarded | 13,870 | - | 13,870 |
| **Total** | **17,531** | **-** | **17,531** |

| | | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| **21. ADMINISTRATION EXPENSES** | | | |
| Depreciation | Note 5 | **1,380** | 1,225 |
| Staff costs | Note 21.1 | **18,998** | 16,564 |
| Directors' fees | Note 27 | **2,014** | 1,947 |
| Auditors' remuneration | Note 21.2 | **926** | 556 |
| Operating lease rentals | | **2,845** | 2,395 |
| Loss / (Profit) on furniture, equipment and motor vehicle disposals | | **32** | (14) |
| Other expenses | | **6,769** | 6,024 |
| | | **32,964** | **28,697** |
| Refund in respect of financial services levy | | **–** | (2,746) |
| | | **32,964** | 25,951 |
| ***21.1 Staff costs*** | | | |
| Basic salaries | | **12,886** | 11,779 |
| Pensions | | **1,108** | 1,080 |
| Medical aid | | **873** | 908 |
| Training & recruitment | | **171** | 156 |
| Motor vehicles | | **1,760** | 904 |
| Incentives | | **2,115** | 1,653 |
| Temporary staff | | **85** | 84 |
| | | **18,998** | 16,564 |
| **Average number of employees** | | **75** | 75 |
| ***21.2 Auditors' remuneration*** | | | |
| ***Auditors' remuneration*** | | | |
| Audit fees (current year) | | **563** | 492 |
| Audit fees (prior year) | | **90** | 31 |
| Other services | | **273** | 33 |
| | | **926** | 556 |

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| **22. NOTES TO THE CASHFLOW STATEMENT** | | |
| ***22.1 Cash generated from operations*** | | |
| Profit for the year | **117,665** | 31,426 |
| Adjustments for | | |
| - tax expense (Note 13.2) | **14,040** | 11,861 |
| - depreciation (Note 5) | **1,380** | 1,226 |
| - loss / (profit) on disposal of furniture, equipment and motor vehicles (Note 21) | **32** | (14) |
| - profit on disposal of financial assets: equities | **(133,513)** | (73,764) |
| - movement in revaluation available-for-sale financial assets: bonds | **5,025** | 7,851 |
| Impairment losses | | |
| - insurance assets (Note 8) | **(87)** | 51 |
| **Changes in operating assets and liabilities** | | |
| Net increase in insurance liabilities | **119,287** | 103,382 |
| Net increase in reinsurance assets | **(4,558)** | (2,365) |
| Net increase in insurance assets | **(18,192)** | (1,663) |
| Net increase in loans & receivables | **(2,271)** | (1,557) |
| Net decrease / (increase) in debt securities | **13,567** | (136,287) |
| Net (increase) / decrease in short term investments | **(170,666)** | 36,416 |
| Net increase / (decrease) in other payables | **5,060** | (9,574) |
| Net increase in provisions | **41** | 64 |
| | **(53,190)** | (32,947) |
| ***22.2 Taxation*** | | |
| Opening balance | **11,451** | 12,888 |
| Income statement charge | **(14,040)** | (11,861) |
| Deferred tax | **12,035** | 2,243 |
| Closing balance | **(5,890)** | (11,451) |
| Tax refunded / (paid) | **3,556** | (8,181) |

## 23. RETIREMENT BENEFITS

***Provident fund***

The retirement benefit fund, Econorisk Umbrella Provident Fund, is a defined contribution fund administered by Hollard Insurance and is governed by the Pensions Fund Act of 1956. The fund covers all qualifying employees.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|

## 24. OPERATING LEASE COMMITMENTS

The Company leases all four regional offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Company also leases various computer and other equipment under cancellable lease agreements. The Company is generally required to give between 3 and 6 months notice for the termination of these agreements.

The lease expenditure charged to the income statement during the year is disclosed in note 22.

*The future aggregate minimum lease payments under non-cancellable operating leases are as follows:*

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| Not later than 1 year | **2,288** | 980 |
| Later than 1 year and not later than 5 years | **8,641** | 807 |
| | **10,929** | 1,787 |

## 25. RELATED PARTIES

### *25.1 Associated parties*

*The Federated Employers' Trust Limited ("FET")*
The Federated Employers' Trust Limited ("FET") owns 29.0% (*2005: 37.4%*) of the issued share capital of FEM. FET was created to facilitate the movement in shares issued or redeemed in respect of new and cancelled policyholders respectively.

*Fedtrust ("The Trust")*
The Trust, an inter-vivos trust, owns 100% of FET, and was created to house the share capital of FET. The beneficiaries of The Trust are the policyholders of FEM. In terms of the Trust Deeds, all reasonable expenditure incurred by the trust must be paid by FEM.

***Associated party transactions***
*The Federated Employers' Trust Limited ("FET")*
In 2006 FET charged FEM an administration fee of R0,141 million (*2005: R0,115 million*) for services rendered.

The net amount due by FET at 31 December 2006 is R3k (*2005: R25k*).

*Fedtrust ("The Trust")*
In 2006 the amount paid to The Trust in respect of administration costs amounted to R8k (*2005: R67k)* which is included in management expenses (Note 21).

### *25.2 Related party transactions*

*Operating lease rentals*
FEM leases its Houghton offices from Barrow Properties (Pty) Ltd , which is a related party (See note 27). Operating lease costs paid for the year were R1,67 million (*2005: R1,78 million*). There were no amounts due to the related party at year end.

*Short Term Insurance*
Insurance cover for furniture, office and computer equipment is placed with Alexander Forbes Risk Services. Mr H Walker is a Director of Alexander Forbes Group (Pty) Ltd which controls Alexander Forbes Risk Services. Insurance premiums paid for the year were R96k (*2005: R270k*). The prior year comparitive includes cover for motor vehicles. There were no amounts due to the related party at year end.

| | 2006 R'000 | 2005 R'000 |
|---|---|---|

## 25. RELATED PARTIES (continued)

### 25.2 Related party transactions (continued)

*Consulting fees*

Mr CE Saville, a non-executive Director, provided consulting services to the Company for which he was paid R17k (*2005: R22k*).

*Premium income*

Certain non-executive Directors have insurance policies with the Company in respect of their construction company's. The premium charged is at arms length, being at the same rates as would be applicable to all other policyholders. No amounts were due to the Company at year end. The following is a list of premium income received in respect of these related parties:

| *Director* | *Company name* | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| Messrs JA Barrow & JR Barrow | Barrow Construction (Pty) Ltd | **587** | 541 |
| Mr GD Irons | Irons Construction (Pty) Ltd | **475** | 241 |
| Mr CS Jiyane | Rainbow Construction (Pty) Ltd | **751** | 397 |
| Mr NF Maas | Gauteng & Free State Piling (Pty) Ltd | **173** | 120 |
| *Total premium income* | | **1,986** | 1,299 |

*Rebates paid*

Certain non-executive Directors that have insurance policies with the Company in respect of their construction company's have received merit rebates. The basis of qualifying for merit rebates are the same as would be applicable to other policyholders. The following is a list of merit rebates paid in respect of these related parties:

| *Director* | *Company name* | 2006 R'000 | 2005 R'000 |
|---|---|---|---|
| Messrs JA Barrow & JR Barrow | Barrow Construction (Pty) Ltd | **29** | 23 |
| Mr GD Irons | Irons Construction (Pty) Ltd | **–** | 40 |
| Mr CS Jiyane | Rainbow Construction (Pty) Ltd | **137** | 148 |
| Mr NF Maas | Gauteng & Free State Piling (Pty) Ltd | **8** | 41 |
| *Total merit rebates paid* | | **174** | 252 |

## 26. EXECUTIVE COMMITTEE COMPENSATION

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| Total cost of employment, excluding vehicle expenses | **2,698** | 2,434 |
| Vehicle expenses | **453** | 464 |
| Incentives | **876** | 502 |
| *Total earnings (Included in staff costs - note 21.1)* | **4,027** | 3,400 |

| | 2006 R'000 | 2005 R'000 |
|---|---|---|
| **27. DIRECTORS' REMUNERATION** | | |
| *Executive Director* | | |
| *Mrs TT Pugh* | | |
| Basic salary | **838** | 769 |
| Pensions | **45** | 41 |
| Medical aid | **33** | 33 |
| Leave encashment | **25** | - |
| Vehicle costs | **116** | 114 |
| Incentive | **371** | 362 |
| *Total earnings* | **1,428** | 1,319 |
| ***Total Executive Directors' earnings*** | **1,428** | 1,319 |
| *Non-Executive Directors' fees* | | |
| Mr JA Barrow (Chairman) | **99** | 92 |
| Mr DG Barrow * | **-** | 46 |
| Mr JR Barrow ^ | **44** | - |
| Mr GD Irons | **44** | 26 |
| Dr APH Jammine | **55** | 50 |
| Mr CS Jiyane | **34** | 42 |
| Mr NF Maas | **60** | 42 |
| Dr H Ngakane | **44** | 42 |
| Mr CE Saville | **44** | 42 |
| Mr H Walker | **70** | 68 |
| Mr PL Wilmot | **75** | 73 |
| ***Total Non-Executive Directors' fees*** | **569** | 523 |
| ** resigned during 2005* | | |
| *^ appointed during the year* | | |
| *Non-Executive Directors' fees for other services* | | |
| Mr CE Saville | | |
| - incentive | **-** | 83 |
| - consulting fees | **17** | 22 |
| ***Total Non-Executive Directors' other*** | **17** | 105 |
| ***Total Non-Executive Directors' earnings*** | **586** | 628 |
| **Total** | **2,014** | 1,947 |

# Notice of Annual General Meeting

Notice is hereby given that the annual general meeting will be held in the Boardroom, Building 2, 1st Floor, 101 Central Street, Houghton, Johannesburg, on Thursday, 26 July 2007, commencing at 09h00.

## Business

### 1. Financial statements

1.1 To receive, consider and adopt the financial statements for the year ended 31 December 2006.

### 2. Directors

***2.1 Election of Directors***

To elect Directors: In accordance with the articles of association of the Company, Messrs CS Jiyane; NF Maas and H Walker retire from office and are eligible for re-election.

***2.2 Directors' emoluments***

To authorise the board to determine the Directors' emoluments for the financial year ending 31 December 2007.

### 3. Auditors

3.1 To re-elect PricewaterhouseCoopers Inc. as auditors until the next annual general meeting and to authorise the board to fix the auditors' remuneration for the past audit.

<u>Note</u>
A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend, speak and vote thereat in his stead and the person so appointed need not be a member of the Company. Proxy forms must be lodged at the Company's office (see proxy form) not less than forty-eight hours before the appointed time of the meeting.

By order of the Board

Secretary

JOHANNESBURG
4 July 2007

The Federated Employers' Mutual
Assurance Company Limited

# Proxy

**THE FEDERATED EMPLOYERS' MUTUAL ASSURANCE COMPANY LIMITED**
**Registration Number: 1936/008971/06**

For use at the annual general meeting of the Company to be held on Thursday, 26 July 2007 at 09h00.
I/We, the undersigned, hereby appoint:

1. ........................................................................................................ or failing him/her

2. ........................................................................................................ or failing him/her

3. the chairman of the meeting
as my/our proxy to act for me/us at the annual general meeting of the Company to be held on 26 July 2007, or at any adjournment or postponement thereof, and to vote for me/us as follows:

| | Number of shares | | |
|---|---|---|---|
| Item | For | Against | Abstain |
| 1.1 | | | |
| 2.1 CS Jiyane | | | |
| 2.1 NF Maas | | | |
| 2.1 H Walker | | | |
| 2.2 | | | |
| 3.1 | | | |

(see note 2)

..........................................................................................................................................................................................

Signature Date

..........................................................................................................................................................................................

Full name and address

Notes:

1. A member entitled to attend and vote at the meeting may appoint a proxy, or proxies, to attend, speak and vote on his/her behalf. A proxy need not be a member of the Company.
2. A member's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the Chairman and the annual general meeting, if the Chairman is the authorised proxy, to vote in favour of the ordinary resolutions of the Annual General Meeting, or any other proxy to vote or to abstain from voting at the annual general meeting as he deems fit.
3. Unless already recorded by the Company, a power of attorney under which the proxy form is signed must accompany the proxy form. A proxy form or other documents appointing a representative of a body corporate in terms of Section 188 (I) of the Companies Act must be signed by a duly authorised officer and be accompanied by a certified copy of the relevant instrument of authority.
4. A member who has appointed a proxy may personally attend the meeting and vote to the exclusion of any such proxy or proxies.
5. Proxy forms must reach either of the under mentioned addresses not less than forty-eight hours before the appointed time of the meeting:

FEM
1st Floor, Building no. 2
101 Central Street
Houghton, 2198

or

Private Bag 87109
Houghton
2041

# Regional Offices

## Head office
1$^{st}$ Floor, Building no. 2,
101 Central Street
Houghton, 2198
Private Bag 87109, Houghton, 2041

**Managing Director: Mrs T T Pugh**

**Telephone:** (011) 359-4300
**Facsimile:** (011) 359-4302

## Johannesburg
Ground Floor, Building no. 2,
101 Central Street
Houghton, 2198
Private Bag 87109, Houghton, 2041

**Area Manager (Inland): R Spreadbury**
**Assistant Branch & Claims Manager:**
**Ms K Naidoo**

**Telephone:** (011) 359-4300
**Facsimile:** (011) 359-4336

## Cape town
8$^{th}$ Floor, 80 Strand Street
Cape Town, 8001
P O Box 2555, Cape Town, 8000

**Chief Underwriting Officer:**
**R A Saunders**
**Claims Manager: J Booysens**

**Telephone:** (021) 418-3210
**Facsimile:** (021) 425-1544

## Durban
16$^{th}$ Floor, Mercury House,
320 Smith Street
Durban, 4001
P O Box 429, Durban, 4000

**Branch Manager: M J Vernon**
**Assistant Branch & Claims Manager:**
**W A Bell**

**Telephone:** (031) 304-8958
**Facsimile:** (031) 304-3158

## Pretoria
3$^{rd}$ Floor, Block A
536 Schoeman Street
Arcadia, 0083
P O Box 56221, Arcadia, 0007

**Telephone:** (012) 440-1824 or 9
**Facsimile:** (012) 440-1838

# VISION

To be the **"preferred" provider** of COID
To be the **"employer of choice"**
To create a **healthier and safer environment**
To provide **excellent service** to all stakeholders
To foster a **high performance** and **ethical culture**

# MISSION

We exist to pay **claims** and **focus** on employees
We take the **administrative** burden
We **pay quicker and negotiate** with service providers
We champion **IOD** and **"the process works well"**

**To achieve this, we focus on:**

- Personalised service
- National service delivery
- Empathy
- Going beyond the call of duty
- Championing health and safety
- Balancing performance and attitude
- Efficiency

# VALUE

**Self Worth**
Belief in one-self
**Support**
Encourage and guide everyone in achieving personal and company goals
**Effective Communication to enhance performance**
Take responsibilty for:
Ensuring the message is correctly conveyed
Ensuring you have understood the message correctly
**Motivation**
Create an environment of motivation
**Respect**
Empathy, consideration and understanding
**Responsibility**
Take ownership, question and investigate

# CODE OF CONDUCT

We will conduct our individual responsibilities in accordance with our culture, which is a culture of total ethics and everything that encompasses ethical behaviour.

Our behaviour will conform to that of integrity, honesty, morality, honour, and principled behaviour.

This code of conduct forms part of our culture and the principles governing our ethics must be practiced and adhered to by each representative of FEM

FEM
THE FEDERATED EMPLOYERS'
MUTUAL ASSURANCE COMPANY LIMITED