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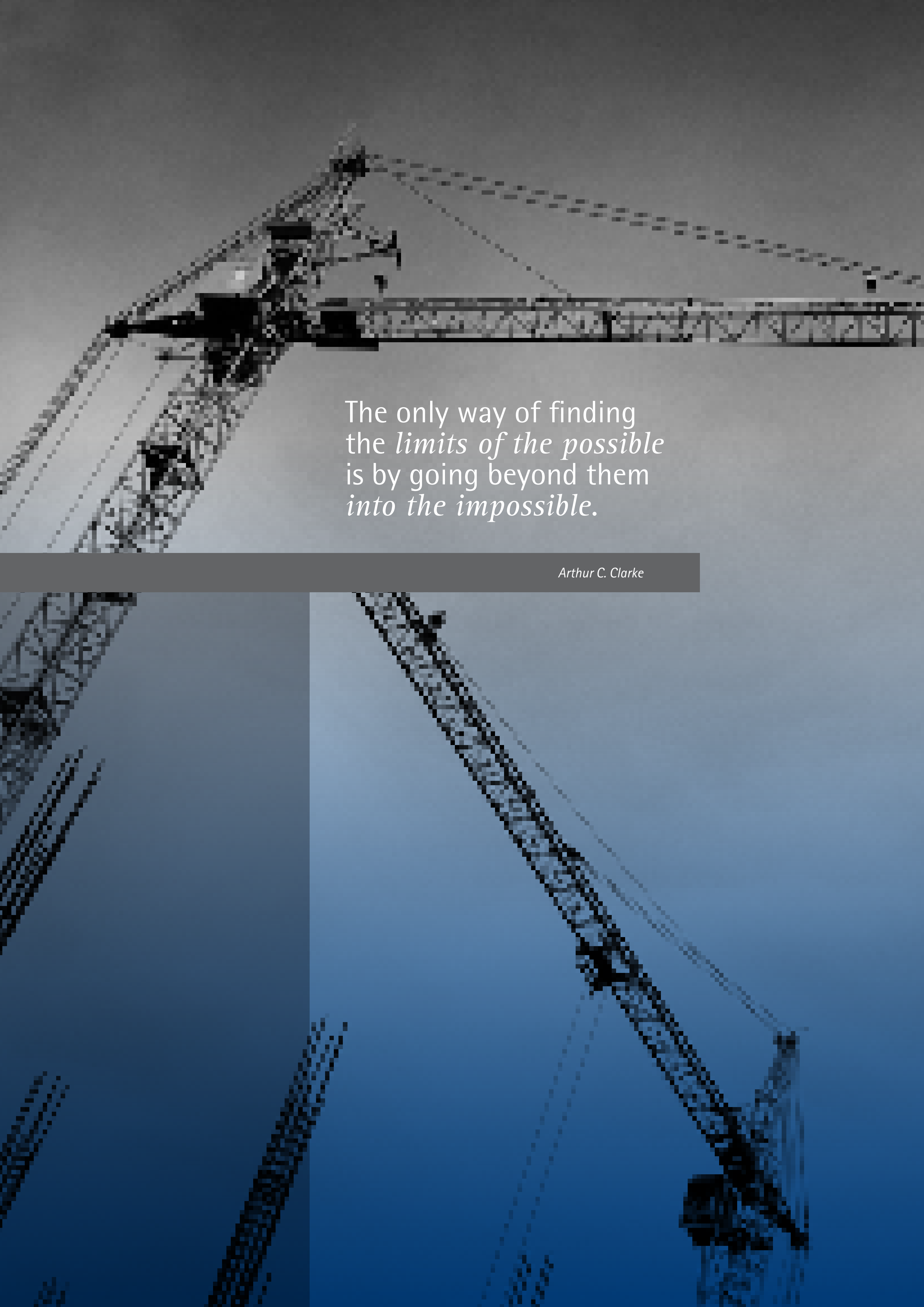
THE FEDERATED EMPLOYERS' MUTUAL ASSURANCE COMPANY LIMITED

Annual Report 2011



The only way of finding
the *limits of the possible*
is by going beyond them
into the impossible.

Arthur C. Clarke

FEM provides insurance cover to the construction industry alongside the State's Compensation Fund, which is managed by the Compensation Commissioner.

This insurance compensates employees or their dependants following an injury arising from occupational accidents and illness occasioned by industrial diseases.

THE FEDERATED EMPLOYERS' MUTUAL ASSURANCE COMPANY LIMITED

Annual Report 2011

CONTENTS

The Federated Employers' Mutual Assurance Company Limited
(Registration No. 1936/008971/06)

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 the period ending 31 December 2011.

Business

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

The Company operates as a mutual insurer. All policyholders are shareholders of the Company. Shareholders are not entitled to any dividends or distribution of the assets of the Company.

Overall performance

Net insurance premium revenue totalled R481.5m for the year, which is an increase of R14.8m or 3% over the corresponding figure of R466.7m for 2010.

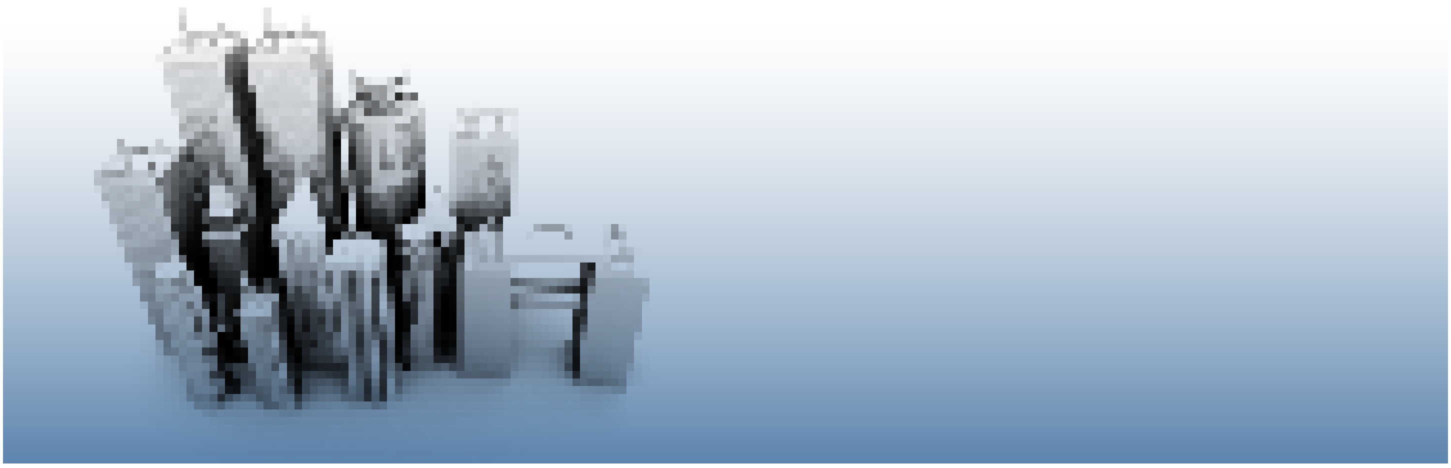
Investment income totalled R218.0m and represents an 8.3% return on average financial assets held during the year (2010: 13.1%). This return resulted from double digit rand returns on offshore assets and local bonds, offset by the more muted 4% growth in the local equity markets.

The gross claims expense (before reinsurance effects) increased by R6.5m to R120.4m for the year and is mainly due to an increase in the average cost per claim.

Total pension costs increased by R74.4m to R190.5m for the year. The increase is due mainly to R31.5m, which resulted from a change in pension increases and an adjustment of R28.6m to include the expected 100% CPI catch-up and a 5.1% pension increase for 2012. Pensions paid during the year increased by R3.4m to R46.9m. The annual pensions increase approved by the Compensation Commissioner, effective 1 April 2012, is 5.1% (1 April 2011: 4.6%).

Administration expenses, excluding BBBEE spend, totalled R53.8m for the year, which is an increase of R7.9m over the corresponding figure of R45.9m for 2010. A major portion of the increase is in respect of additional claims management and recovery costs and the health and safety summit hosted by the Company. BBBEE spend increased from R0.7m to R6.7m for the year.

It is pleasing to report that the Company maintained an underwriting surplus for the fourth year, whereas underwriting losses were recorded prior to the 2008 year. If you exclude the increase in first tier margins from R56.2m in 2010 to R71.2m in 2011 and the increase in CPI catch up and pension increase from R3.2m in 2010 to R28.6m in 2011 then the underwriting profit for 2011 increases from R1.5m to R41.9m compared to an underwriting profit of R90.8m for the prior year. After the transfer of R1.4m to the statutory contingency reserve (2010 transfer from the statutory contingency reserve: R4.5m) the transfer to retained income amounted to R213.1m (2010: R344.1m).



Significant developments

VAT and Income tax

The Company's VAT and income tax exempt status was confirmed in amending legislation enacted during the year.

General

Premiums

The Company's premiums income growth declined to 3% in the current year in comparison to 10% in the previous financial year. The reduction in the civil's rate resulted in an estimated decrease in premium income of R19,5m.

Information and technology

The Company's computer system continues to be enhanced to meet any new requirements and changes in the business environment. The system is considered to be of a high standard and enables the provision of efficient services to policyholders and their employees. Many elements of the system are currently being redeveloped to keep pace with current trends in software development.

Claims management

Net claims incurred have increased by R85,6m in comparison to 2010 which includes an increase in the transfer to the pensioners reserve of R70.9m. Medical claims paid of R99,8m have decreased by 5.1% in comparison to the prior year. Transfers to the claims reserve amounted to R25.2m compared to a transfer of R5.7m in the prior period. The continued engagement of professional claims managers to "case manage" selected claims has proved once again to be beneficial.

Employment equity

The Company is committed to meeting the targets of its employment equity plan.

Broad based black economic empowerment ("BBBEE")

The Company continues to make progress on its long term BBBEE strategy. The Company aims to achieve substantial compliance with its BBBEE commitments in the medium to long term strategy. The total BBBEE spend for the period totalled R6.7m in comparison to R0.7m in the prior year. The Company continues to fund the wheelchair project with Northcliff Rotary Club and the bursary project with the University of Johannesburg. During the year the Company made an ex-gratia payment of R1000 per Pensioner, total cost of R1,8m. Other major projects funded this year are:

- Thandulwazi maths and science project
- Habitat for Humanity (housing project)
- Shanduka black umbrellas (small business incubator)
- Softstart business and technology incubator (business incubator, IT sector)
- Tourism enterprise partnership (small business development, tourism industry)
- Health and safety learnership program

Corporate governance

It is pleasing to report that the Company is substantially compliant with the requirements of King III, as disclosed on pages 8 to 13 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. The solvency margin has increased from 303% to 338% as a result of a 15.2% increase in the net asset value in 2011.

Occupational health, safety and rehabilitation

Financial assistance amounting to R7,2m (2010: R6,6m) was provided to the health and safety programmes of the various construction industry associations. Statistics reflect a steady decrease in the number of workers 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. The Company's claims registered cycle is normally 2½ years, and therefore 2010 and 2011 are subject to change, but compared to prior years there is a clear indication of the decrease over time.

	Underwriting year				
Accident frequency rate: number of accidents over total insured employees	2007	2008	2009	2010	2011
Financial year end					
2007	3.62	-	-	-	-
2008	4.05	3.35	-	-	-
2009	4.08	3.78	3.10	-	-
2010	4.10	3.85	3.55	3.07	-
2011	4.11	3.86	3.58	3.27	2.78

It is also pleasing to note that the Company 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 2011, R88,7m (2010: R77,6m) was paid to policyholders in merit rebates.

Health and safety awards

The Company continues to recognise policyholders that achieve excellence in health and safety. To receive these awards, policyholders had to meet or exceed very stringent criteria as set out by the Company. In addition to their normal merit rebate payment, policyholder's also receive an additional rebate. The 2011 awardees for these prestigious awards were:

- Platinum award: Kentz (Pty) Ltd
- Gold award: WACO Africa (Pty) Ltd – SGB Cape Division
- Silver award: Aveng Grinaker – LTA Karrena Africa
- Bronze award: Shula Construction CC

2011 saw the lowest fatal accidents in ten years at 45. The average for the past ten years is 75 with 93 fatal accidents registered in 2010.

Prospects

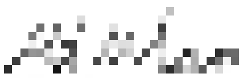
The Company is well positioned to face the future challenges and remains committed to the provision of an effective and efficient compensation service to all our stakeholders. To all of them we extend our very best wishes for the time that lies ahead.

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 Commissioner for this support.

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

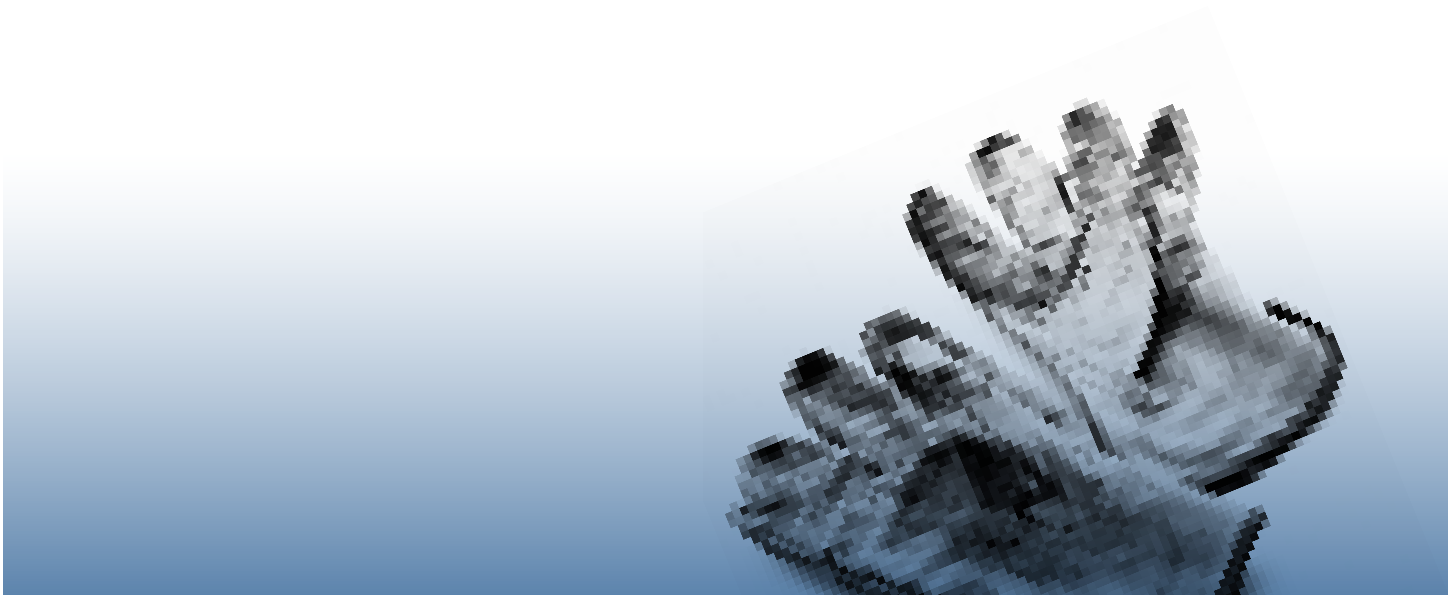
Finally, we thank the executive committee and staff of the Company for their devoted and excellent service during the year.



N F Maas
Chairman

T T Pugh
Managing Director

16 April 2012

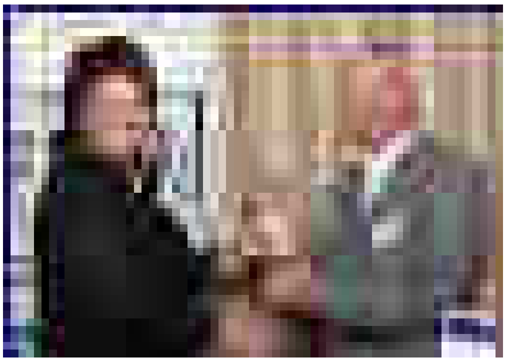


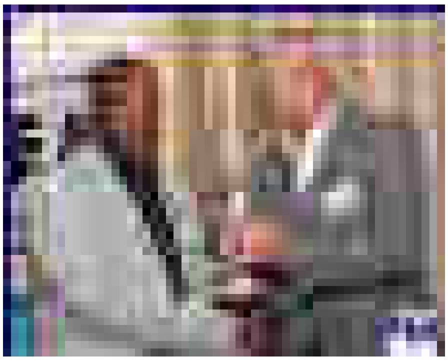
FEM HEALTH AND SAFETY AWARDS

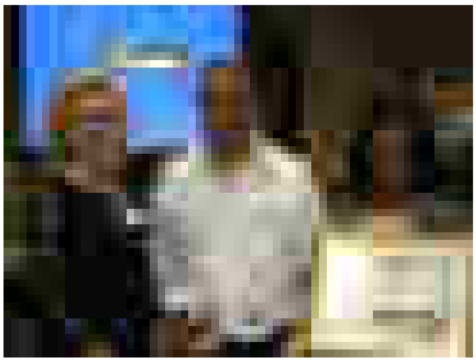
Employers receiving awards have shown consistent health and safety performance over a 5 year period and have shown responsibility in attending to their ethical, moral, legislative duties in terms of health and safety. They will also have reaped the benefits of this in terms of merit rebates, less down time, good reputation, motivated staff and all the other benefits that derive from a positive health and safety culture and good health and safety program.

Over and above these awards, our managing director Thelma Pugh last year introduced a platinum, gold, silver and bronze award. These awards use the same basis as the criteria above, but over a 10 year period. Over and above this these awards are done on a national basis and an additional external criteria, namely the number of hours worked without incident is also taken into account and verified by external consultants. The top 4 ranked FEM policyholders are then awarded the Platinum, Gold, Silver and Bronze awards.
These special awards also receive an additional rebate based on the rebate they earned and their ranking.

Platinum Award – Meyerine van Zyl: Kentz (Pty) Ltd





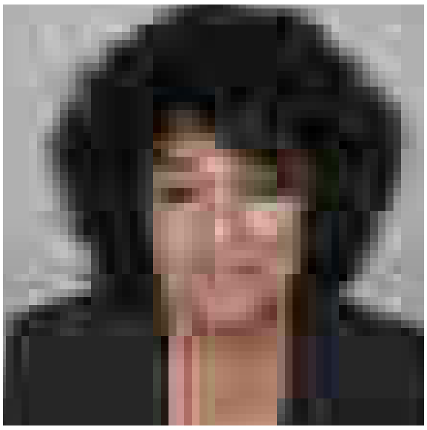


Left: Gold - Ria Alberts: Waco Africa (Pty) Ltd, SGB Cape Division (Durban)
Middle: Silver - Sipho Mtwampe*:* Aveng Grinaker-Lta Karrena Africa
Right: Bronze - Gokhale Naidoo*:* Shula Construction CC

THE BOARD OF DIRECTORS

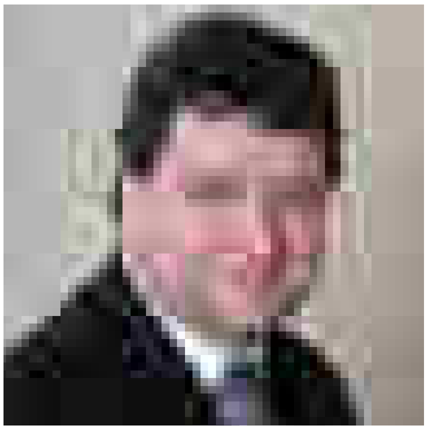
Front: Dr APH Jammine, NF Maas (Chairman), TT Pugh (Managing Director)
Centre: PL Siphayi, L Willis (Secretary)
Back: GM Mc Intosh (Executive Director), Dr H Ngakane, H Walker, JR Barrow, A Daya (Executive Director), M Ilsley
Absent: CS Jiyane, GD Irons

EXECUTIVE TEAM


Thelma Pugh - Managing Director


Ashwin Daya - Chief Financial Officer


Rudolph van Deventer - Business Analyst


Gys Mc Intosh - Chief Information Officer


Rob Spreadbury - Chief Underwriting Officer


Ayesha Ismail - Chief Human Resources Officer

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 III.

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 committee charter.

The board of directors

For the period under review, there were twelve directors (2010: twelve) on the board, nine (2010: 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 via the remuneration and nominations committee 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 independent 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. 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 MG Ilsley, PL Siphayi, A Daya and GM McIntosh.

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 and 28 to the annual financial statements.

The board of directors meet three times per year and have 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	April	September	November
Non-executive Directors			
NF Maas (Chairman)	✓	✓	✓
JR Barrow	✓	✓	✓
CS Jiyane	✓	✓	✓
GD Irons	✓	✓	✓

Board	April	September	November
Independent non-executive Directors			
MG Ilsley	✓	✓	✓
APH Jammine	✓	✓	✓
H Ngakane	✓	✓	✓
PL Siphayi	✓	✓	✓
H Walker	✓	✓	✓
Executive Directors			
TT Pugh (Managing)	✓	✓	✓
A Daya	✓	✓	✓
G Mc Intosh	✓	✓	✓

✓ Attended

From a risk perspective, the responsibility of the Board is to oversee the quality, integrity and reliability of the Company's risk management function. The Board is also responsible for reviewing and assessing the integrity and quality of the control systems and ensures that risk policies and strategies are effectively managed.

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

Audit committee

The audit committee meets at least twice a year with management and the external and internal auditors. The external and internal 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 committee operates under a Board approved charter, which conforms to all of the King III principals applicable to the audit committee.

Attendance at meetings during the year

	March	September
MG Ilsley (Chairman)	✓	✓
JR Barrow	✓	✓
H Walker	✓	✓
PL Siphayi	✓	✓

✓ Attended

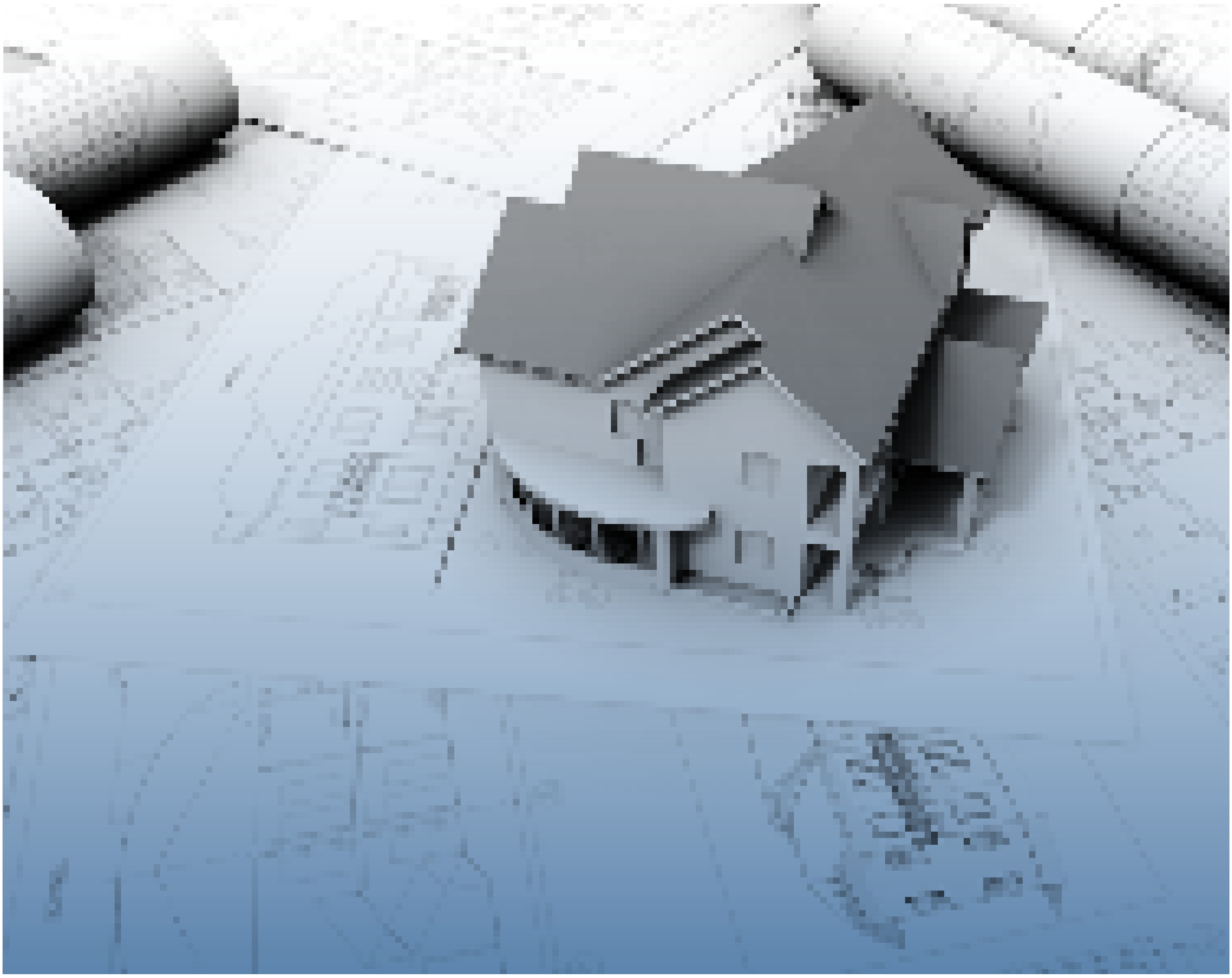
Remuneration and nominations committee

The remuneration and nominations committee meets at least once a year. The remuneration and nominations 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. The committee may seek advice from independent professional advisors. The committee meets once a year unless otherwise required.

Attendance at meetings during the year

	November
H Walker (Chairman)	✓
NF Maas	×
APH Jammine	✓
CS Jiyane	✓

✓ Attended
× Absent with apology



Investment committee

The committee meets at least four times per year. Various Asset Managers manage the investments. The Asset Managers manage the portfolio in terms of a mandate approved by the board. The asset consultant reports to, and discusses the investment performance and future activities, with the investment committee at least four times per year.

The investment committee, which operates in accordance with a formal charter authorised by the board, provides assistance to the board. Their role is to:

- Examine, review and recommend investment policy, criteria and parameters.
- Examine, review and recommend potential new investments proposed by executive management, asset consultants and asset managers with due regard to the Company's strategic and financial objectives, the structural basis of integration and the operational and managerial demands occasioned by the investment.
- Monitor the performance of existing investments against investment criteria and pre-investment assumptions.
- Examine and review recommendations by executive management, asset consultants and asset managers to dispose of investments.
- Make recommendations on the selection of asset consultants, asset managers and professional advisors.

Attendance at meetings during the year

	January	March	May	July	September	November
APH Jammine (Chairman)	✓	✓	✓	✓	✓	✓
MG Ilsley	✓	✓	✓	✓	✓	✓
NF Maas	✓	✓	×	✓	✓	×
H Ngakane	✓	✓	✓	×	✓	✓
H Walker	✓	✓	×	✓	✓	✓

✓ Attended
× Absent with apology

Executive committee

The Managing Director, Mrs TT Pugh, chairs the executive committee, which comprises executive directors and 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)
A Ismail (Chief Human Resources Officer)
GM McIntosh (Chief Information Officer)
R van Deventer (Business Analyst)
RG Spreadbury (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 board 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 on-going 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.

Deloitte performs the internal audit function for the Company. Internal audit monitors the operations of underwriting, claims, pensions and all internal control and support areas. Their findings and recommendations are reported to management and to the audit 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 18 to 70 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 17 of the 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 the Company's 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") and SizweNtsalubaGobodo Inc. ("SNG") are the external auditors of the Company and have confirmed that they were independent of all services provided.

Employment equity

An employment equity plan has been in operation for some time and is overseen by the managing director and chief human resource officer. We have ensured that our employment policies, practices and working environment are non-discriminatory.

For the year under review 92% (2010: 93%) 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.

AUDIT COMMITTEE REPORT TO THE MEMBERS

of the Federated Employers' Mutual Assurance Company Limited for the year ended 31 December 2011.

This report is issued in compliance with section 94(7)(f) of the Companies Act No 71 of 2008, as amended, and has been approved by the Audit Committee.

The Audit Committee held two meetings during the year and has held one meeting after the financial year end (refer Corporate Governance Statement for the attendance register). At these meetings, the committee received and considered reports from the external and internal auditors and from management. The committee inter alia:

- reviewed and approved the external audit plan for the year ended 31 December 2011, approved the proposed external audit fees, and satisfied itself regarding the independence of the joint external auditors; and
- reviewed and approved the internal audit work plan, considered the findings of internal audit reports and reported thereon to the board.

After consideration of all of the findings reported by internal audit covering those areas included in their annual work plan, explanations given by management and discussions with the joint external auditors on the results of their audit, the Audit Committee concluded that:

- nothing has come to its attention, which would indicate that there was a material breakdown in the overall internal financial control systems during the year; and
- the internal financial controls form a reasonable basis for the preparation of reliable financial statements.

The Audit Committee has considered the financial position of the Company and the budget approved by the board for the next financial year and is of the opinion that the Company will remain a going concern for the foreseeable future.

The Audit Committee has satisfied itself of the appropriateness of the expertise, resources and experience of the Company's finance function.

The board has concurred with the Audit Committee's assessments regarding the Company's internal financial controls, going concern status and finance function.

The audit committee has recommended to the Board the approval of the annual financial statements for the year ended 31 December 2011.

M G Ilsley
Chairman: Audit committee

16 April 2012

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS
to the members of the Federated Employers' Mutual Assurance Company Limited

Responsibility for and approval of the annual financial statements

The board accepts responsibility for the integrity, objectivity and reliability of the Company's annual financial statements. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the joint external auditors is to express an independent opinion on the fair presentation of the financial statements based on their audit of the Company.

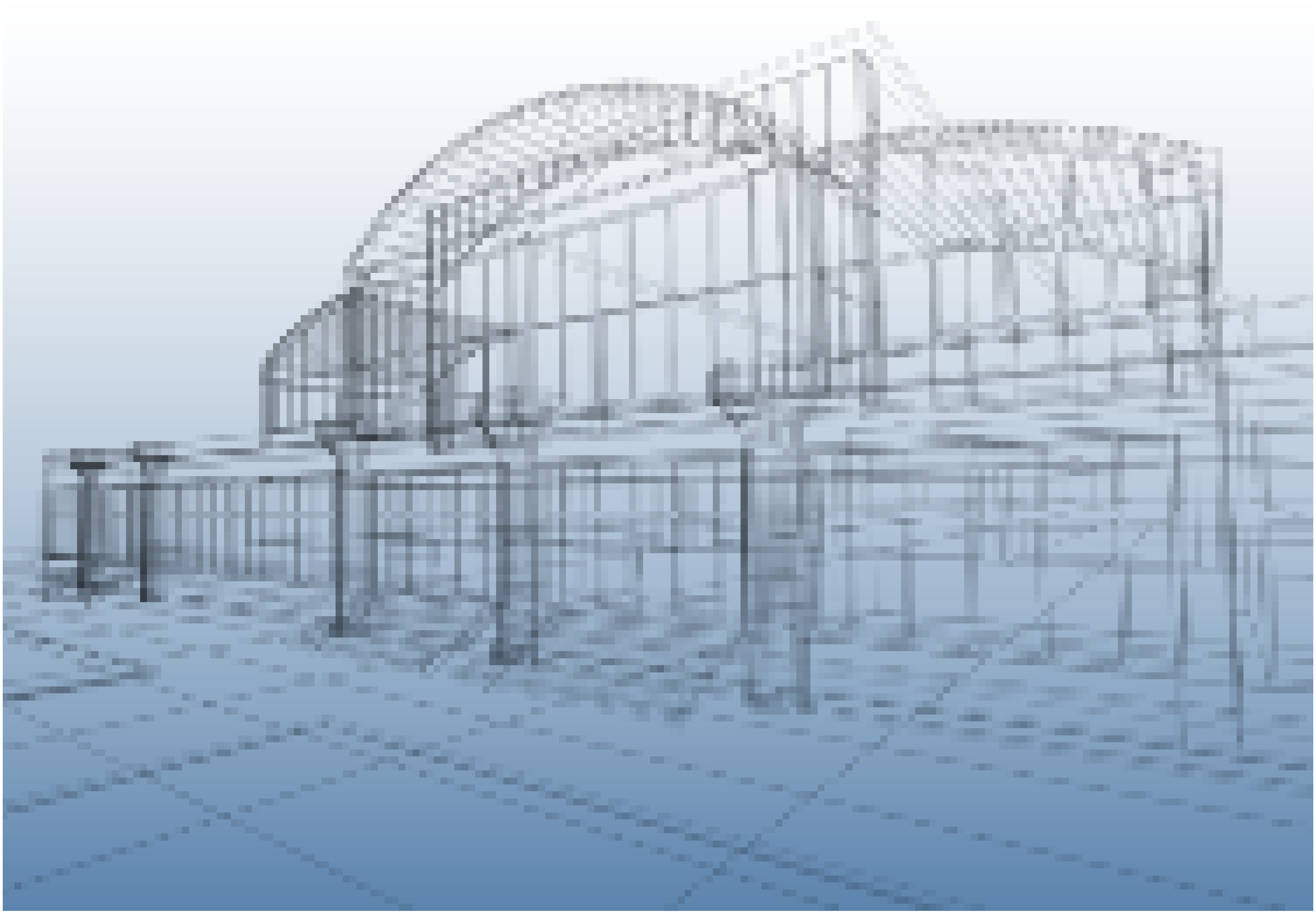
Nothing has come to the attention of the board, which would indicate that there was a material breakdown in the overall internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards ("IFRS").

The board is of the opinion that the Company is financially sound and operates as a good concern. The financial statements have accordingly been prepared on this basis.

The financial statements were approved by the board and signed on their behalf by:

N F Maas
Chairman

T T Pugh
Managing Director



CERTIFICATE BY COMPANY SECRETARY
for the year ended 31 December 2011

As Company Secretary, I hereby confirm, in terms of the Companies Act, 2008, that for the year ended 31 December 2011, 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

16 April 2012

INDEPENDENT AUDITOR'S REPORT
to the members of the Federated Employers' Mutual Assurance Company Limited

We have audited financial statements of The Federated Employers' Mutual Assurance Company Limited ("the Company") which compromise the statement of financial position as at the 31 December 2011, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 18 to 70.

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 the International Financial Reporting Standard and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibilities

Our responsibility is to express an opinion of 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 about whether the financial statements are free from material misstatement.

The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risk 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 management, 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 Federated Employers' Mutual Assurance Company Limited as the 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

Director: G Mtetwa
Registered Auditor
Johannesburg
16 April 2012

SizweNtsalubaGobodo Inc.

Director: N Sigasa
Registered Auditor
Johannesburg
16 April 2012

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 2011.

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 construction industry.

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

Underwriting result

	Movement %	2011 R'000	2010 R'000
Insurance results			
Net insurance premium revenue (Note 17)	3%	481,457	466,700
Net claims (Note 20)	11%	(114,572)	(103,400)
New pensions expense (funded by premiums) (Note 20)	3%	(60,421)	(58,889)
Administration expenses	30%	(60,504)	(46,624)
Grants	8%	(7,160)	(6,648)
Accident prevention expenses	59%	(8,635)	(5,434)
Net result before pensions and rebates	**(6%)**	**230,165**	**245,705**
Pensions paid and net movement in pensions liability (excluding new pensions above) (Note 20)	127%	(130,082)	(57,225)
Underwriting profit before rebates	**(47%)**	**100,083**	**188,480**
Premium rebates (Note 14.4)	1%	(98,595)	(97,704)
Underwriting profit for the year	**(98%)**	**1,488**	**90,776**

The 47% decrease in the underwriting profit before premium rebates is mainly attributable to the muted 3% growth in net insurance premium revenue in the current industry conditions, the 11% increase in net claims and the 127% increase in pension expense (excluding new pensions) The increase in claims costs is mainly as a result of an increase in the average cost per claim. The increased pension's expense resulted mainly from a change in assumption regarding expected pension increases and an increase in first tier margins.

The provision for premium rebates has been maintained at 21% of premium revenue, resulting in a small underwriting profit for the year of R1.4m. This is the fourth consecutive year that an underwriting surplus has been maintained.

Overall result and financial position

	Movement %	2011 R'000	2010 R'000
Financial results			
Underwriting profit for the year	**(98%)**	**1,488**	**90,776**
Investment income	(17%)	218,007	262,811
Investment expenses	3%	(4,940)	(14,051)
Total comprehensive income for the year	(37%)	214,555	339,536

Financial position

The Company's net asset value totalled R1,629m as at 31 December 2011, representing a 15% growth in net assets for the year.

Full details of the Company's financial position and cash flows are set out in the financial statements and notes thereto-on pages 21 to 70.

Post balance sheet events

The directors are not aware of any subsequent events that might have a material impact on the financial statements.

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.

Dividends

In accordance with paragraph 5.1 of the memorandum of association, the powers of the Company specifically exclude the power to distribute in specie or in kind any of the Company's assets to its Shareholders (including upon dissolution of the Company).

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

Directors' remuneration and fees are set out in Note 27 and 28 to the financial statements.

The following were directors of the Company during the financial year:

NF Maas (Chairman)	Chairman
TT Pugh	Managing Director
JR Barrow	Non-executive
A Daya	Executive Director
MG Ilsley	Independent non-executive
GD Irons	Non-executive
APH Jammine	Independent non-executive
CS Jiyane	Non-executive
GM Mc Intosh	Executive Director
Dr H Ngakane	Independent non-executive
PL Siphayi	Independent non-executive
H Walker	Independent non-executive

In accordance with the articles of association of the Company, Messrs MG Ilsley, PL Siphayi, A Daya and GM McIntosh 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. No new appointments were made during the year.

The audit committee comprises MG Ilsley (Chairman), JR Barrow, PL Siphayi and H Walker.

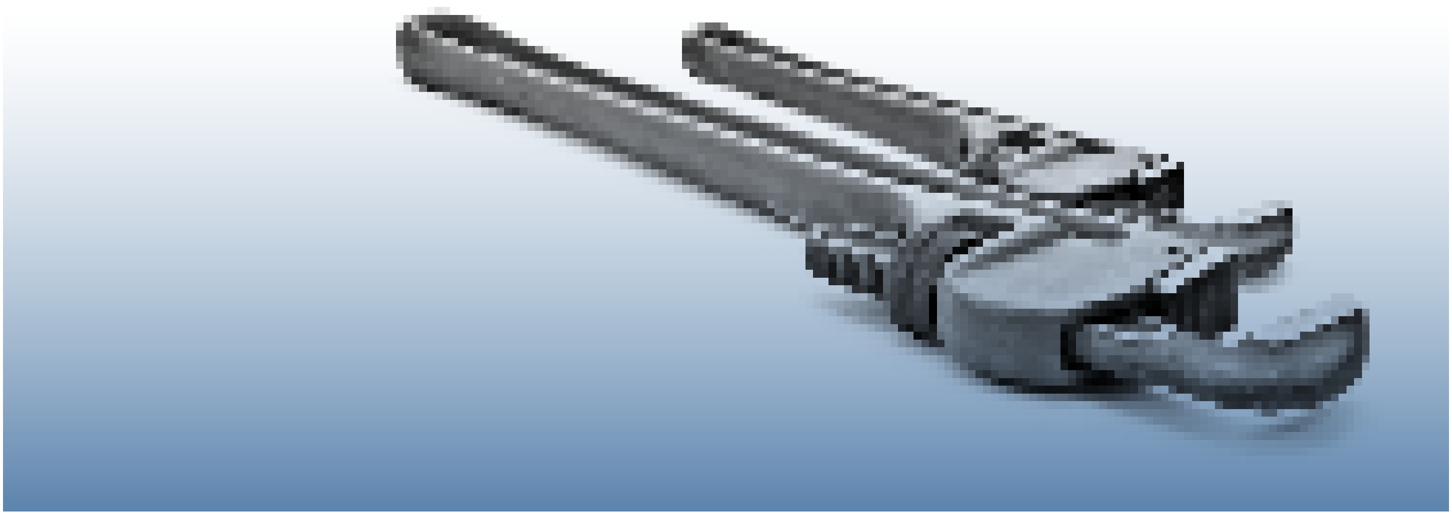
The investment committee comprises Mr APH Jammine (Chairman), MG Ilsley, NF Maas, H Ngakane and H Walker.

The remuneration and nominations committee comprises H Walker (Chairman), APH Jammine, CS Jiyane and NF Maas.

Secretary

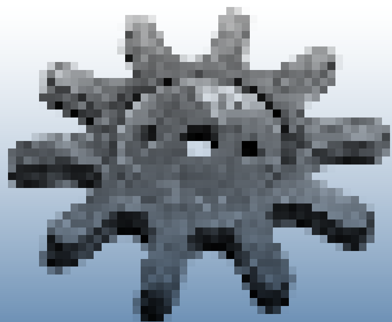
The secretary of the Company is Ms EJ Willis.

Business Address:	Postal Address:
3 Atherstone Bower	P O Box 2005
77 King Edward Road	Edenvale
Lombardy East	1610
2090	



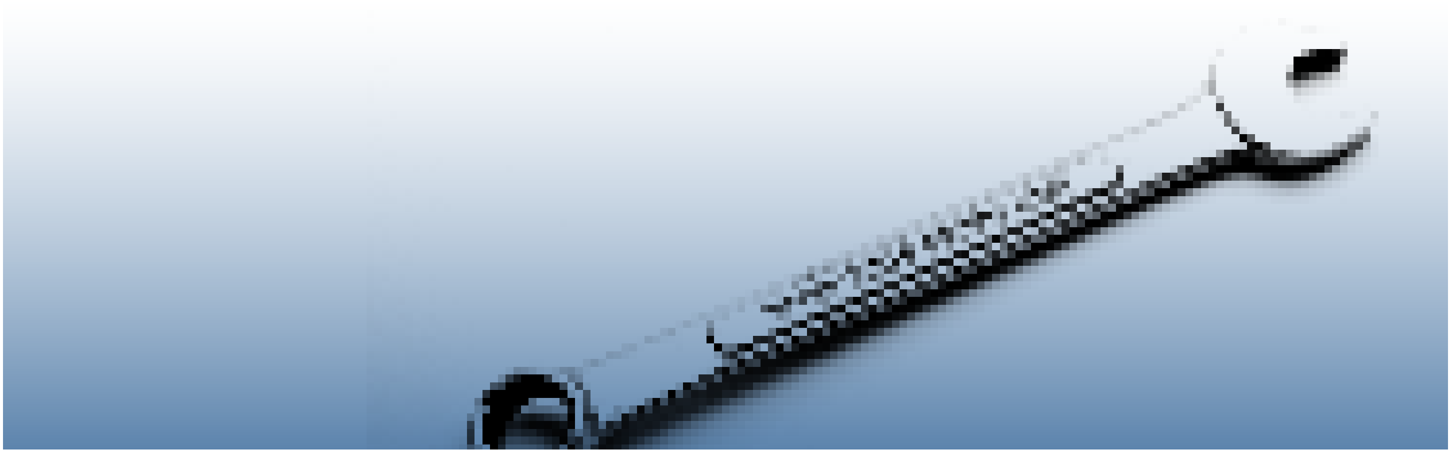
STATEMENT OF FINANCIAL POSITION
as at 31 December 2011

	Note	2011 R'000	2010 R'000
ASSETS			
Furniture, equipment and motor vehicles	5	**3,414**	3,801
Financial assets at fair value through income	6.1	**2,848,483**	2,426,148
Insurance receivables	8	**16,592**	25,618
Other receivables	9	**12,041**	15,292
Taxation receivable		**6,300**	6,300
Reinsurance assets	7	**11,081**	10,235
Cash and cash equivalents		**20,083**	36,559
Total assets		**2,917,994**	2,523,953
EQUITY AND LIABILITIES			
Ordinary share capital	11	**10**	10
Statutory contingency reserve	12.1	**38,719**	37,281
Retained income		**1,590,894**	1,377,777
Total equity		**1,629,623**	1,415,068
Liabilities			
Insurance liabilities	14	**1,263,572**	1,086,741
Employee leave provision	16	**1,633**	1,346
Trade and other payables	15	**23,166**	20,798
Total liabilities		**1,288,371**	1,108,885
Total equity and liabilities		**2,917,994**	2,523,953



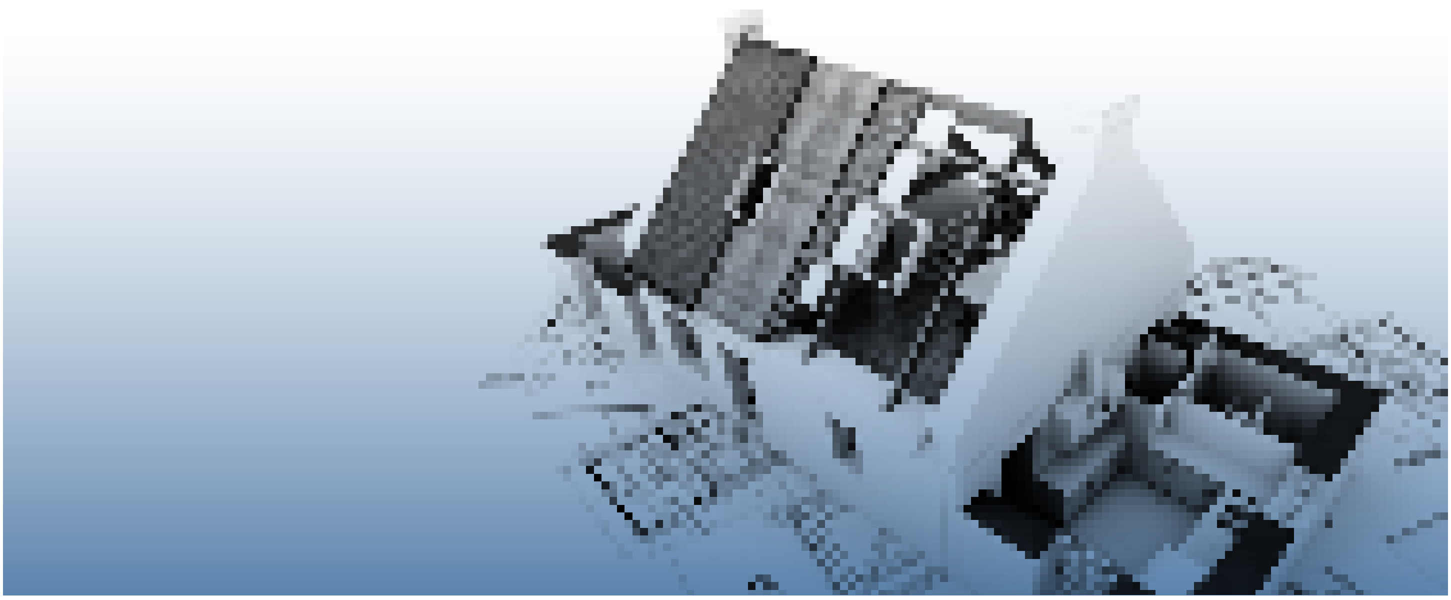
STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2011

	Note	2011 R'000	2010 R'000
Insurance premium revenue	17	**486,727**	472,404
Insurance premium ceded to reinsurers	17	**(5,270)**	(5,704)
Net insurance premium revenue		**481,457**	466,700
Investment income	18 and 19	**218,007**	262,811
Net income		**699,464**	729,511
Gross claims	20	**120,354**	113,813
Claims recovered from reinsurers	20	**(5,782)**	(10,413)
Net claims		**114,572**	103,400
Pensions	20	**190,503**	116,114
Premium rebates	14.4	**98,595**	97,704
Net insurance benefits and claims		**403,670**	317,218
Administration expenses	21	**53,822**	45,914
BBBEE expenses	21	**6,682**	710
Asset management expenses		**4,940**	14,051
Accident prevention expenses and grants		**15,795**	12,082
Expenses		**484,909**	389,975
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**214,555**	339,536



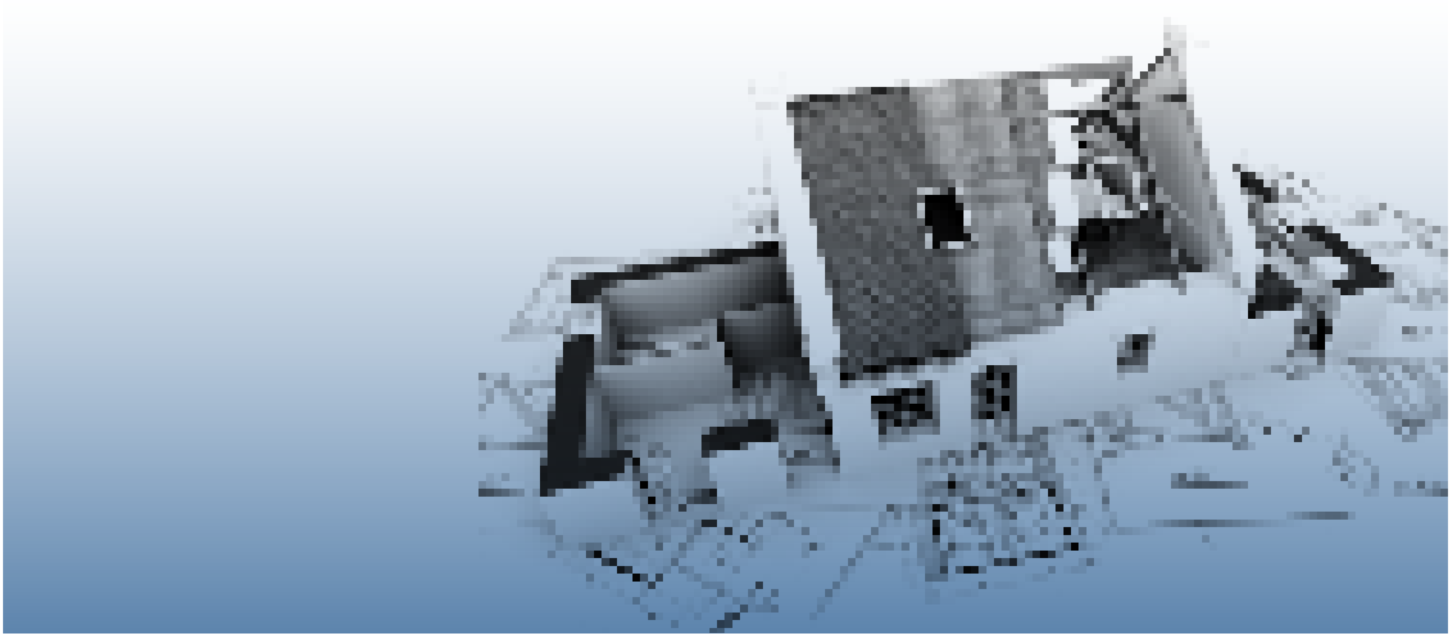
STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2011

	Share capital	Statutory contingency reserve	Retained income	TOTAL
	R'000	R'000	R'000	**R'000**
Balance at 1 January 2010	10	41,807	1,033,715	**1,075,532**
Profit for the year	–	–	339,536	**339,536**
Transfer from contingency reserve	–	(4,526)	4,526	**–**
Balance at 31 December 2010	**10**	**37,281**	**1,377,777**	**1,415,068**
Balance at 1 January 2011	10	37,281	1,377,777	**1,415,068**
Profit for the year	–	–	214,555	**214,555**
Transfer to contingency reserve	–	1,438	(1,438)	**–**
Balance at 31 December 2011	**10**	**38,719**	**1,590,894**	**1,629,623**



STATEMENT OF CASH FLOWS
for the year ended 31 December 2011

	Note	2011 R'000	2010 R'000
Cash flows from operating activities			
Net cash generated by operating activities	22	**307,882**	289,674
Cash flows from investing activities			
Purchases of financial assets at fair value through income		**(3,872,727)**	(3,335,701)
Proceeds on disposals of financial assets at fair value through income		**3,549,730**	3,040,873
Purchase of furniture, equipment and motor vehicles	5	**(1,598)**	(1,751)
Proceeds on disposal of furniture, equipment and motor vehicles		**237**	53
Net cash utilised in investing activities		**(324,358)**	(296,526)
Net decrease in cash and cash equivalents for the year		**(16,476)**	(6,852)
Cash and cash equivalents at beginning of the year		**36,559**	43,411
Cash and cash equivalents at year end		**20,083**	36,559



1. General information

The Company is a registered short term insurer, incorporated and domiciled in South Africa.

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 financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards, as issued by the International Accounting Standards Board ('IFRS') and the Companies Act, 1973 in South Africa. The policies set out below have been consistently applied to all the years presented.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through income, financial assets and financial liabilities, including derivative instruments.

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

New and revised IFRS in issue but not yet effective

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective and will not have any material impact in the future:

Amendments to IFRS 1	Hyperinflation and fixed dates - derecognition of transactions[1]
Amendments to IFRS 7	Financial Instrument: disclosure - transfer of financial assets[1]
Amendments to IAS 12	"Income taxes" on deferred tax - measurement of deferred tax[2]
Amendments to IAS 1	Presentation of financial statements - disclosure of other comprehensive income[3]
Amendments to IAS 19	Employee benefits – recognition and measurement[4]
IFRS 9 *(as amended in 2011)*	Financial instruments – financial liabilities and derecognition of financial instruments[5]
IFRS 10	Consolidated financial statements – group consolidation and subsidiaries[4]
IFRS 11	Joint arrangements – rights and obligations[4]
IFRS 12	Disclosure requirements of all forms of interests in other entities[5]
IFRS 13	Fair value measurement – precise definition of fair value measurement[5]
IAS 27 revised 2011	Separate financial statements[4]
IAS 28 revised 2011	Requirements for associates and joint ventures[4]
Amendments to IAS 32	Financial instruments presentation – requirements for offsetting financial assets and financial liabilities[6]

1 Effective for annual periods beginning on or after 1 July 2011, not applicable to the Company.
2 Effective for annual periods beginning on or after 1 January 2012, not applicable to the Company.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013, not applicable to the Company.
5 Effective for annual periods beginning on or after 1 January 2013.
6 Effective for annual periods beginning on or after 1 January 2014, not applicable to the Company.

The above amendments are not expected to have a material impact on the Company.

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 and 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 classifies its financial assets into the following categories: at fair value through profit or loss and loans and receivables. The classification is determined by management at initial recognition and depends on the purpose for which the investments were acquired.

2.3.1 Classification

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

Financial assets are classified into the 'financial assets at fair value through profit or loss' category at inception as designated by management. Financial assets designated as at fair value through profit or loss at inception are those that are:

Held in internal funds to match insurance contracts liabilities. The designation of these assets to be at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; and managed and whose performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as at fair value through profit or loss or available for sale. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

Financial assets are initially recognised at fair value and in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition are expensed in the statement of comprehensive income.

Financial assets are derecognised when the rights to receive cash flows from them have expired.

Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the Company's right to receive payments is established.

2.3.2 Impairment of assets

(a) Financial assets carried at amortised cost

The Company assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is 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 the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Impairment of other non-financial assets

Assets that have an indefinite useful life – for example, land – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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 and cash equivalents

Cash and cash equivalents: includes cash in hand and deposits held at call with banks, which includes petty cash, operational bank account, investment settlement bank account and other short-term investments which are highly liquid investments with original maturity of three months or less, that comprise local and foreign denominated currency money market investments , 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 statement of comprehensive income.

Translation differences on financial assets and liabilities at fair-value through profit or loss, are reported as part of their fair-value gain or loss.

2.7 Financial liabilities

Financial liabilities issued by the company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

2.8 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

Premiums

Premium income (estimated premiums and pipeline premiums) 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 premiums

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 3,5% (2010: 5%). 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 1/365th basis.

Claims and 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 for existing claims payments 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 based on an estimated 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.

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 21% (2010: 21%) 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.

2.9 Income tax

Flowing from the income tax exemption granted by the South African Revenue Service, during the 2006 financial year, no income tax has been accounted for in the current financial year, in respect of the operating activities of the current financial year. Refer Directors report for additional commentary regarding the tax exempt status of the Company.

2.10 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.

2.11 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.

2.12 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 and 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 financial assets at fair value through income is recognised when the right to receive payment is established – this is the ex-dividend date for equity securities.

2.13 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 statement of comprehensive income on a straight-line basis over the period of the lease.

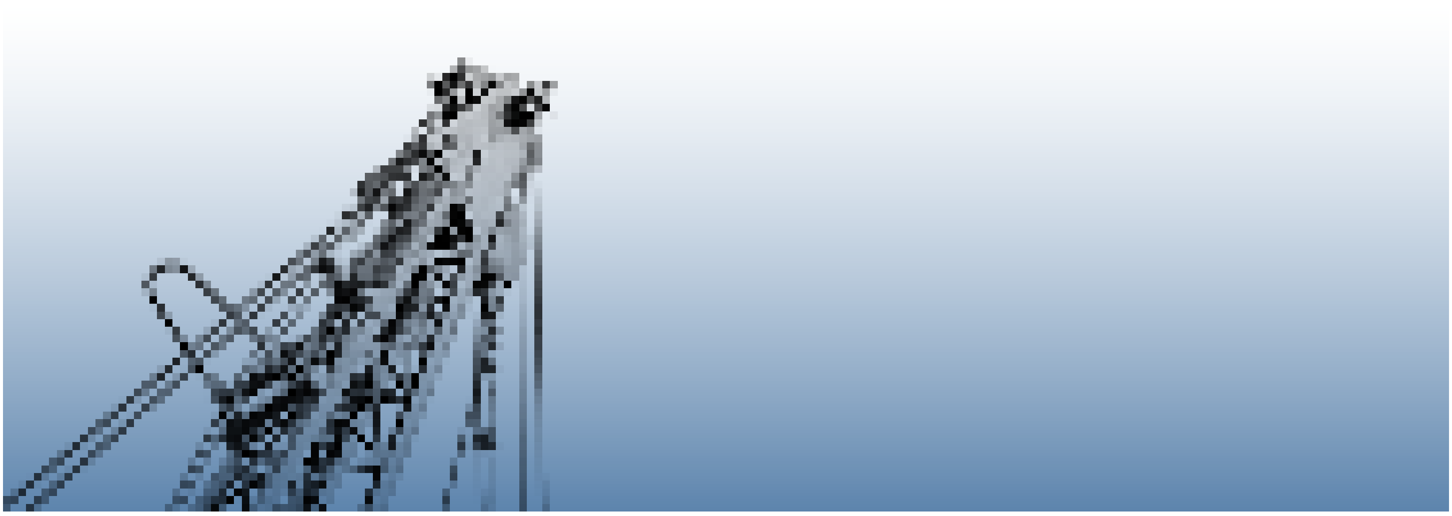
When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.14 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 less rebates 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.

2.15 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds. Where such shares are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders , net of any directly attributable incremental transaction costs.



3. Critical accounting estimates and judgements in applying accounting policies

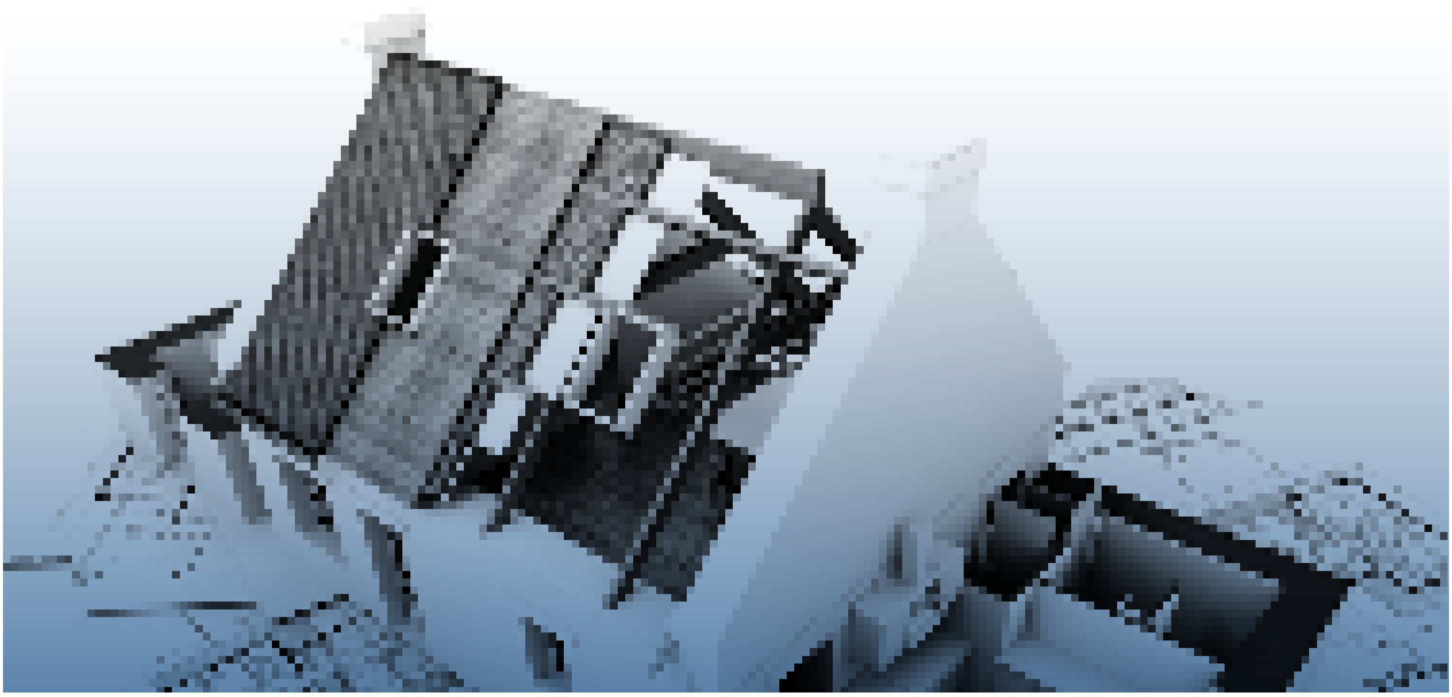
The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to 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 based on an average cost per claim for each underwriting year (see note 2.8). Due to the nature of the claims (injuries and long tail), uncertainty exists regarding the future costs.
- Liabilities in respect of incurred but unreported claims ("IBNR"), are based on the average claims cost 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 for existing claims payments and administration expenses, net of any investment income that may be earned (see note 2.8). The liability is based on assumptions as to future pension increases, mortality and 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.
    - » Future pension increases are assumed to be at the current CPI (Consumer Price Index) plus 1%;
    - » Pensions currently in payment are assumed to receive an ad-hoc increase to fully catch up to CPI;
    - » Mortality and 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;
    - » 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%;
    - » 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 2.8). 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 2.8). 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.

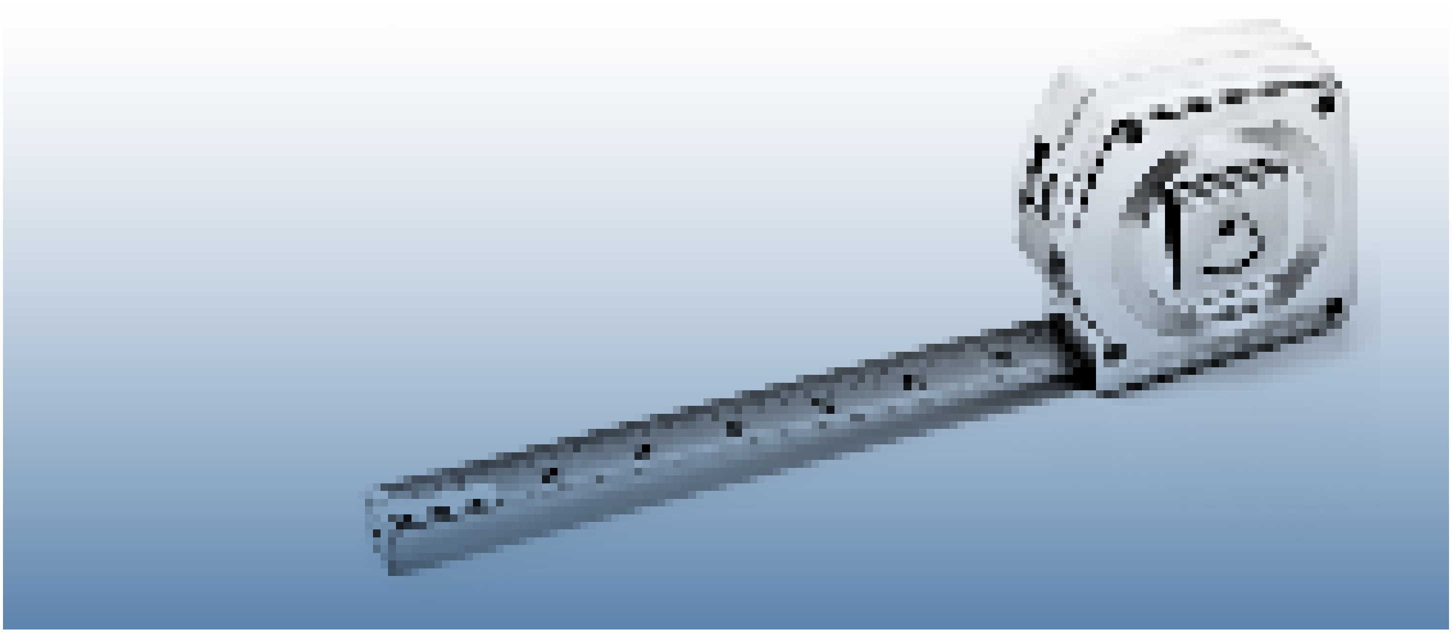
Differences between the actual premium adjustment and pipeline premium are accounted for in the following financial period, once reported by policyholders. The percentage used is reviewed annually.

Sensitivity analysis

Below is the impact on profit for the year if the 3.5% currently provided is actually 1.75 or 5.25%. The impact on profit is calculated from a base of 5% which was the previous financial years pipeline premium percentage used.

	2011 R'000
The impact on profit for the year at 3.50% as provided	(3,812)
The impact on profit for the year at 1.75%	(8,903)
The impact on profit for the year at 5.25%	1,278

The 3.50% utilised in the pipeline premium calculation resulted in a negative impact to net profit of R3,812 million. Net profit would have decreased by R8,903 million if 1.75% was used and increased by R1,278 million if 5.25% was used in the pipeline premium calculation.



4. Management of risk

4.1. Insurance risk

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.

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 workmen 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 worker, 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 and 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 the Company) 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 the Company and therefore the Company 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.

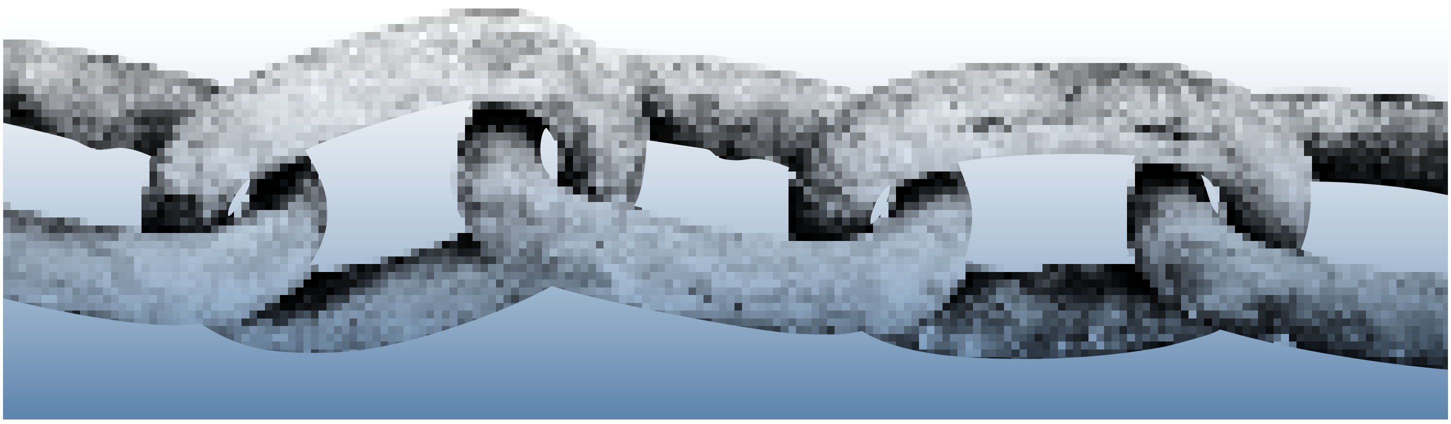
Management of risks

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

The Company 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 (88%), 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*
2011			
Johannesburg	58,887	32,697	4,364
Cape Town	28,944	13,384	2,511
Durban	11,977	14,340	1,224
Total	**99,808**	**60,421**	**8,099**
2010			
Johannesburg	56,884	31,716	5,300
Cape Town	29,675	15,522	3,034
Durban	18,655	11,651	1,524
Total	**105,214**	**58,889**	**9,858**

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 intetrest rate risk, equity price risk and credit risk.

4.2.1. Interest-rate risk

The Company holds 28% (2010: 32%) of its financial assets in debt securities (Government Bonds and Public Utility Bonds) and the remainder of investments are invested in equities, collective investment schemes, credit opportunities, money market and unit trusts. The return on these instruments, and market value of debt securities are affected by fluctuations in interest rates.

A sensitivity analysis on interest rate movements is disclosed in note 6.7.

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
- debt securities.

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 six diverse reinsurers.

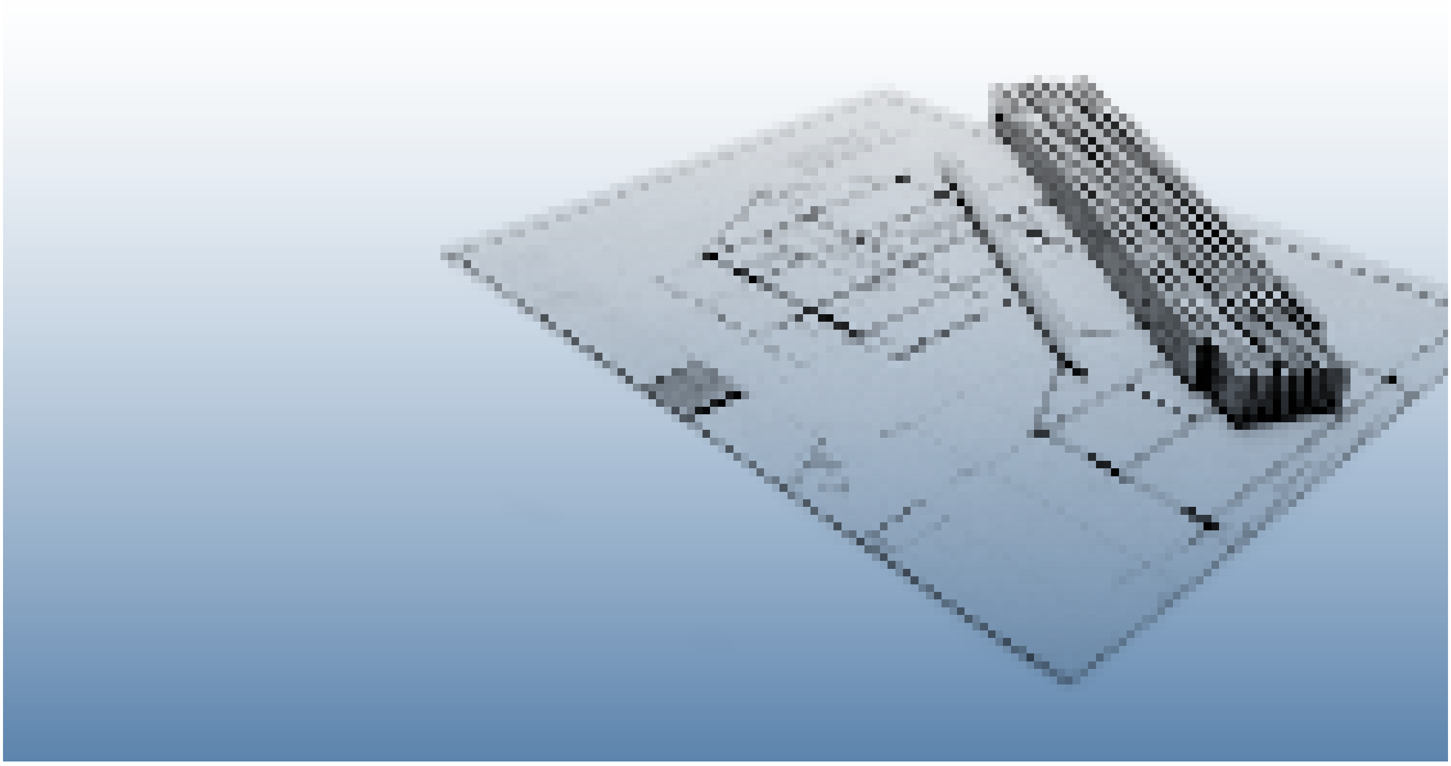
4.2.3. Liquidity risk

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.

	0-1 year	1-3 years	> 3 years	Total
2011				
Trade and other payables	14,858	8,308	–	23,166
Capitalised value of pensions	54,808	116,741	600,765	772,314
Provision for rebates: non-current	–	109,050	–	109,050
Provision for rebates: current	104,614	–	–	104,614
Reinsurance premium due	324	–	–	324
	174,604	234,099	600,765	1,009,468
2010				
Trade and other payables	14,341	6,457	–	20,798
Capitalised value of pensions	42,705	90,962	495,102	628,769
Provision for rebates: non-current	–	109,385	–	109,385
Provision for rebates: current	94,374	–	–	94,374
Reinsurance premium due	282	–	–	282
	151,702	206,804	495,102	853,608

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". A sensitivity analysis on equity risk is disclosed in note 6.7.



	Furniture and 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 2011					
Opening cost	1,694	810	2,567	4,847	**9,918**
Opening accumulated depreciation	(1,373)	(604)	(1,443)	(2,697)	**(6,117)**
Opening net book amount	321	206	1,124	2,150	**3,801**
Additions	47	–	458	1,093	**1,598**
Disposals	–	–	(9)	(63)	**(72)**
Depreciation charge	(97)	(58)	(839)	(919)	**(1,913)**
Closing net book amount	271	148	734	2,261	**3,414**
Cost	1,741	810	3,000	4,723	**10,274**
Accumulated depreciation	(1,470)	(662)	(2,266)	(2,462)	**(6,860)**
Net book amount	**271**	**148**	**734**	**2,261**	**3,414**
Year ended 31 December 2010					
Opening cost	1 630	790	3 739	4 469	**10 628**
Opening accumulated depreciation	(1,277)	(514)	(2,219)	(2,644)	**(6,654)**
Opening net book amount	353	276	1,520	1,825	**3,974**
Additions	80	21	346	1,304	**1,751**
Disposals	(16)	–	(6)	(20)	**(42)**
Depreciation charge	(96)	(91)	(736)	(959)	**(1,882)**
Closing net book amount	**321**	**206**	**1,124**	**2,150**	**3,801**
Cost	1,694	810	2,567	4,847	**9,918**
Accumulated depreciation	(1,373)	(604)	(1,443)	(2,697)	**(6,117)**
Net book amount	**321**	**206**	**1,124**	**2,150**	**3,801**

Depreciation expenses of R1,91m (2010: R1,88m) have been charged to management expenses (Note 21).

	2011 R'000	2010 R'000
6. FINANCIAL ASSETS		
6.1 At fair value through income		
Local:		
• Listed equity securities	**438,401**	342,970
• Investment link insurance policies	**332,502**	364,977
• Listed debt securities: fixed interest rate	**129,619**	146,672
• Unlisted debt securities: fixed interest rate	**30,218**	-
• Listed debt securities: inflation link	**633,346**	561,746
• Listed unit trust investments	**-**	40,566
• Credit opportunities	**336,978**	331,235
	1 901,064	1,788,166
Foreign:		
• Listed unit trust investments	**572,837**	312,095
• Listed equity securities	**53,425**	63,420
• Credit opportunities	**220,586**	198,402
	846,848	573,917
Money market investments		
Local	**100,525**	64,055
Foreign	**46**	10
	100,571	64,065
	2,848,483	2,426,148
Non Current	**2,747,912**	2,362,083
Current	**100,571**	64,065
Total financial assets	**2,848,483**	2,426,148
6.2 Movement in financial assets at fair value through income		
At the beginning of year	**2,426,148**	1,948,894
Additions	**3,872,726**	3,335,701
Disposals	**(3,579,809)**	(2,838,518)
Income accrued	**40,011**	67,652
Foreign exchange differences	**21,461**	(42,568)
Net unrealised gain / (loss)	**67,946**	(45,013)
At 31 December	**2,848,483**	2,426,148

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 R1 372,8m (2010: R1 198,3m) and qualifying assets totalled R1 807,7m (2010: R1 458,7m).

	2011 R'000	2010 R'000
6.3 Credit quality of financial assets		
Debt securities		
Fixed interest rate		
BBB+ Government Guarantee (Negative, guaranteed by SA government)	-	145,378
AAA (Stable, high quality)	121,342	1,294
	121,342	146,672
Inflation link		
AAA+ (Stable, highest quality)	556,021	561,746
	677,363	708,418
Other financial assets		
Investment link insurance policies AA (Stable, high quality)	332,502	364,977
Equity securities BBB (Long term stable)	-	40,566
Foreign debt securities BBB (Long term stable)	37,923	30,274
Local money market AA+ (Stable, high quality)	100,525	64,055
	470,950	499,872
Non-rated financial assets	1,700,170	1,217,858
	2,171,120	1,717,730
Total financial assets at fair value through income	2,848,483	2,426,148
Trade and other receivables		
Counterparties without external rating:		
Existing customers with no defaults in the past		
Insurance receivables	16,592	25,618
Reinsurance assets	11,081	10,235
Other receivables	8,396	10,657
Counterparties with external rating: other receivables		
BBB+ Government Guarantee (Negative, guaranteed by SA government)	-	4,628
AAA+ (Stable, highest quality)	1,272	7
AAA (Stable, high quality)	2,373	-
Total trade and other receivables	39,714	51,145

	2011 R'000	2010 R'000
6.3 Credit quality of financial assets (continued)		
Cash and cash equivalents		
BBB+ (Negative)	**15,389**	19,437
BBB (Long term stable)	**4,683**	17,113
Cash on hand	**11**	9
	20,083	36,559
6.4 Financial assets at fair value through income are denominated in the following currencies:		
• Equity securities – ZAR	**770,903**	748,513
• Equity securities – USD	**626,262**	375,515
• Money market investments – ZAR	**100,525**	64,055
• Money market investments – USD	**46**	10
• Credit Opportunities – ZAR	**336,978**	331,235
• Credit Opportunities – USD	**220,586**	198,402
• Debt securities – fixed interest rates – ZAR	**159,837**	146,672
• Debt securities – inflation link – ZAR	**633,346**	561,746
	2,848,483	2,426,148
ZAR	**2,001,589**	1,852,221
USD	**846,894**	573,927
	2,848,483	2,426,148

	Year ended 31 December 2011			
	0–1 year	1–3 years	3–5 years	**Total**
6.5 Maturity analysis				
Local:				
• Listed equity securities	438,403	–	–	**438,403**
• Investment link insurance policies	–	332,502	–	**332,502**
• Listed debt securities: fixed interest rate	–	159,837	–	**159,837**
• Listed debt securities: inflation link	–	633,344	–	**633,344**
• Credit opportunities	–	–	336,978	**336,978**
	438,403	**1,125,683**	**336,978**	**1,901,064**

6.5 Maturity analysis (continued)

	Year ended 31 December 2011			
	0-1 year	1-3 years	3-5 years	**Total**
Foreign:				
• Listed unit trust investments	572,837	-	-	**572,837**
• Listed equity securities	53,425	-	-	**53,425**
• Credit opportunities	-	220,586	-	**220,586**
	626,262	220,586	-	**846,848**
Money market investments				
• Local	100,525	-	-	**100,525**
• Foreign	46	-	-	**46**
	100,571	-	-	**100,571**
Total financial assets	**1,165,236**	**1,346,269**	**336,978**	**2,848,483**

	Year ended 31 December 2010			
	0-1 year	1-3 years	3-5 years	**Total**
Local:				
• Listed equity securities	342,970	-	-	**342,970**
• Investment link insurance policies	-	364,977	-	**364,977**
• Listed debt securities: fixed interest rate	-	146,672	-	**146,672**
• Listed debt securities: inflation link	-	561,746	-	**561,746**
• Listed unit trust investments	-	40,566	-	**40,566**
• Credit opportunities	-	-	331,235	**331,235**
	342,970	1,113,961	331,235	**1,788,166**
Foreign:				
• Listed unit trust investments	312,095	-	-	**312,095**
• Listed equity securities	63,420	-	-	**63,420**
• Credit opportunities	-	198,402	-	**198,402**
	375,515	198,402	-	**573,917**
Money market investments				
• Local	64,055	-	-	**64,055**
• Foreign	10	-	-	**10**
	64,065	-	-	**64,065**
Total financial assets	**782,550**	**1,312,363**	**331,235**	**2,426,148**

	2011 R'000	2010 R'000
6.6 Fair value hierarchy		
Level 1		
• Listed equity securities	**491,828**	406,390
• Listed unit trust investments	**572,837**	352,661
Level 2		
• Listed debt securities	**793,181**	708,418
• Money market investments	**100,571**	64,065
• Investment linked insurance policies	**332,502**	364,977
• Credit opportunities	**557,564**	529,637
	2,848,483	2,426,148

The Company has established clear guideline for classifying financial instruments within the fair value hierarchy. Classifications within each level of hierarchy have been consistently applied.

	2011	2010
6.7 Sensitivity analysis on market value		
Impact on financial assets if:		
• Emerging markets down by 30%	**(8%)**	(10%)
• Rand depreciates by 20%	**5%**	5%
• Alsi down by 10% and rates down by 2%	**3%**	4%
• Alsi down by 10%	**(4%)**	(3%)
• SA rates down 2%	**7%**	7%
South African rand value impact on financial assets if:		
• Emerging markets down by 30%	**(227,949)**	(238,707)
• Rand depreciates by 20%	**142,779**	114,505
• Alsi down by 10% and rates down by 2%	**78,282**	98,378
• Alsi down by 10%	**(108,600)**	(60,951)
• SA rates down 2%	**186,882**	159,329

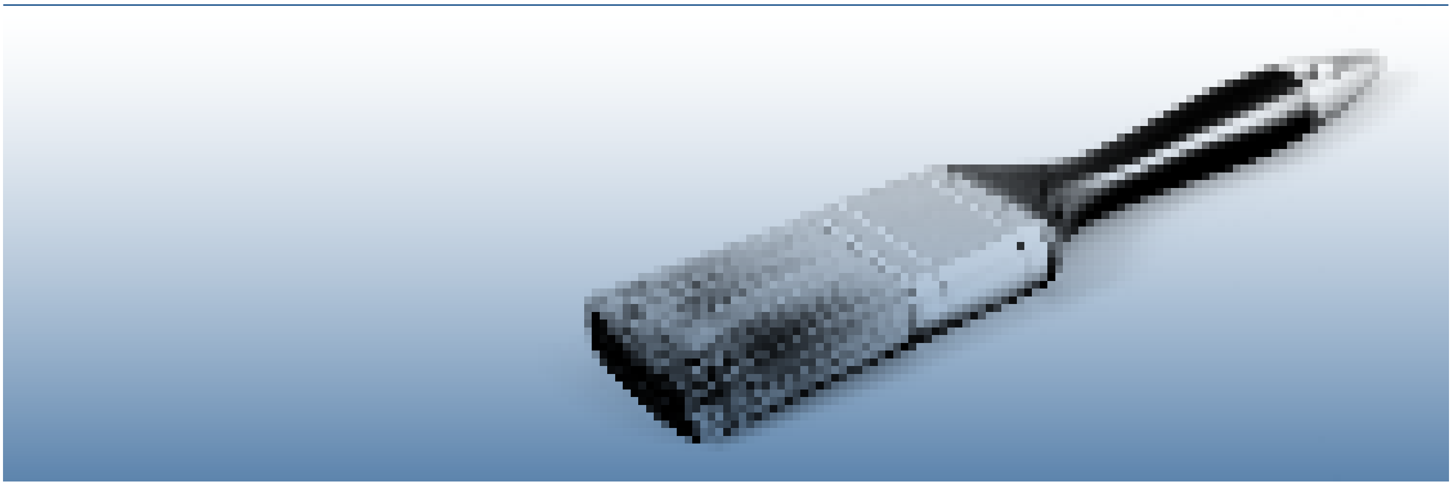
	2011 R'000	2010 R'000
7. REINSURANCE CONTRACTS		
Reinsurers' share of insurance liabilities	**11,081**	10,235
0 to 1 year	**1,979**	2,259
2 to 5 years	**2,834**	3,433
> 5 years	**6,268**	4,543
	11,081	10,235

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

	2011 R'000	2010 R'000
8. INSURANCE RECEIVABLES		
Pipeline premium accrued	**16,718**	22,718
Due from policyholders	**7,992**	6,918
Less provision for impairment of amounts due from policyholders	**(8,118)**	(4,018)
	16,592	25,618
0 to 1 year	**(126)**	2,900
2 to 5 years	**16,718**	22,718
	16,592	25,618

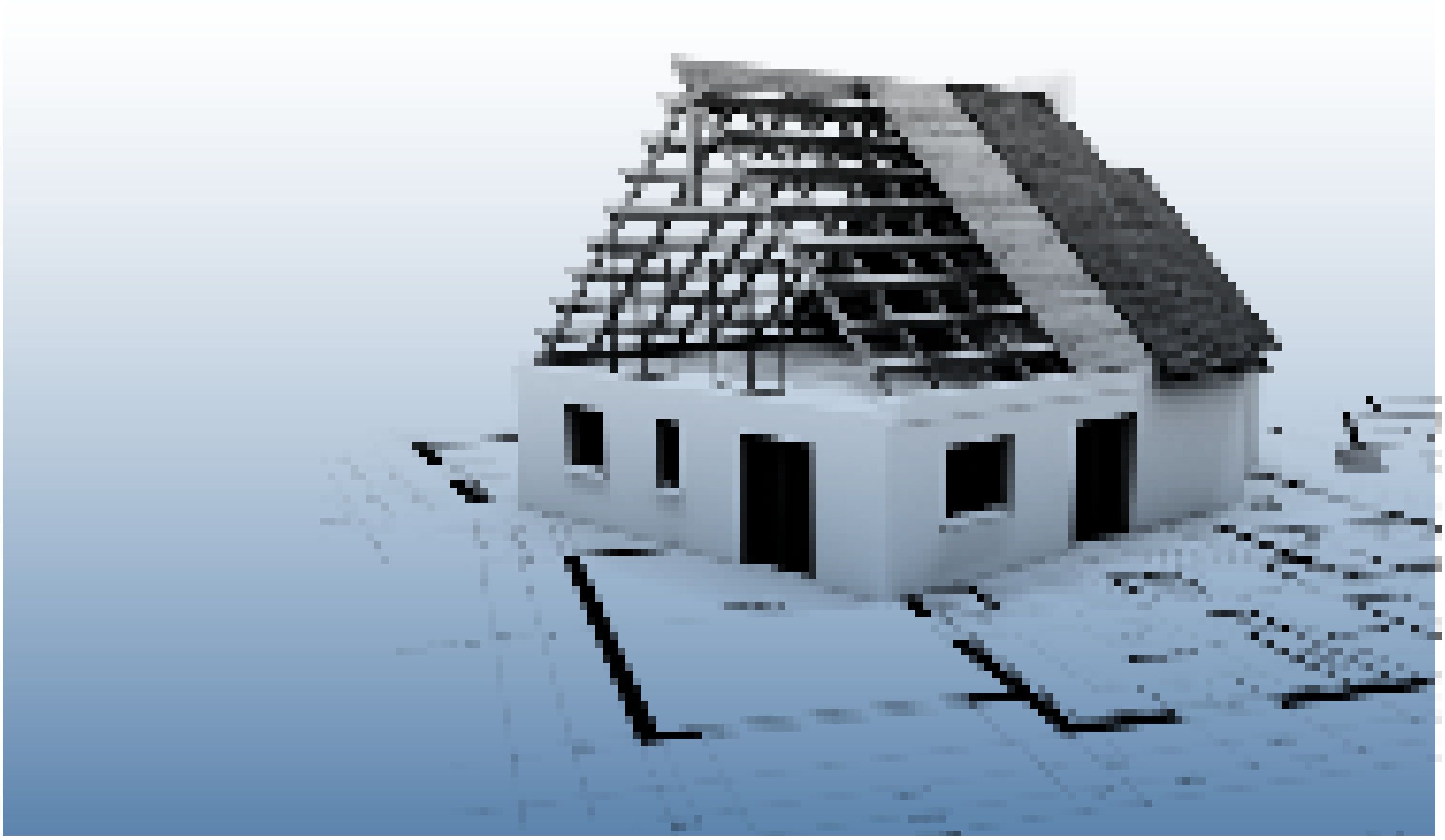
There is little concentration of credit risk with respect to the amounts due from policyholders, as the company has a number of nationally dispersed policyholders.

The Company has written off R1,60 million (2010: R3,50 million) for the impairment of amounts due from policyholders, which has been set off against estimated premium income (Note 17). All doubtful debts have been fully provided for at year end.



	2011 R'000	2010 R'000
9. OTHER RECEIVABLES		
Accrued investment income – financial assets	**5,063**	4,635
Reinsurance receivables	**6,555**	9,621
Prepayments	**144**	148
Related parties	**109**	66
Other	**170**	822
	12,041	15,292
0 to 1 year	**5,486**	5,671
2 to 5 years	**2,931**	6,357
> 5 years	**3,624**	3,264
	12,041	15,292

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



10. FINANCIAL INSTRUMENTS BY CATEGORY

	Fair value through income	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
Year ended 31 December 2011					
Assets as per statement of financial position					
Financial assets at fair value through income	2,848,483	-	-	-	**2,848,483**
Cash and cash equivalents	20,083	-	-	-	**20,083**
Furniture, equipment and motor vehicles	-	-	-	3,414	**3,414**
Insurance receivables	-	-	-	16,592	**16,592**
Other receivables	-	12,041	-	-	**12,041**
Taxation receivables	-	6,300	-	-	**6,300**
Reinsurance assets	-	-	-	11,081	**11,081**
Total	**2,868,566**	**18,341**	**-**	**31,087**	**2,917,994**
Liabilities per statement of financial position					
Insurance liabilities					
• Outstanding Claims	-	-	-	195,864	**195,864**
• Capitalised value of pensions	772,314	-	-	-	**772,314**
• Unearned premium reserves	-	-	-	81,406	**81,406**
• Provision for rebates-non current	-	-	109,050	-	**109,050**
• Provision for rebates-current	-	-	104,614	-	**104,614**
• Reinsurance premium due	-	-	324	-	**324**
Employee benefit liabilities	-	-	-	1,633	**1,633**
Trade and other payables	-	-	23,166	-	**23,166**
Total	**772,314**	**-**	**237,154**	**278,903**	**1,288,371**

10. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

	Fair value through income	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
Year ended 31 December 2010					
Assets as per statement of financial position					
Financial assets at fair value through income	2,426,148	-	-	-	**2,426,148**
Cash and cash equivalents	36,559	-	-	-	**36,559**
Furniture, equipment and motor vehicles	-	-	-	3,801	**3,801**
Insurance receivables	-	-	-	25,618	**25,618**
Other receivables	-	15,292	-	-	**15,292**
Taxation receivables	-	6,300	-	-	**6,300**
Reinsurance assets	-	-	-	10,235	**10,235**
Total	**2,462,707**	**21,592**	**-**	**39,654**	**2,523,953**
Liabilities per statement of financial position					
Insurance liabilities					
• Outstanding Claims	-	-	-	176,533	**176,533**
• Capitalised value of pensions	628,769	-	-	-	**628,769**
• Unearned premium reserves	-	-	-	77,398	**77,398**
• Provision for rebates-non current	-	-	109,385	-	**109,385**
• Provision for rebates-current	-	-	94,374	-	**94,374**
• Reinsurance premium due	-	-	282	-	**282**
Employee benefit liabilities	-	-	-	1,346	**1,346**
Trade and other payables	-	-	20,798	-	**20,798**
Total	**628,769**	**-**	**224,839**	**255,277**	**1,108,885**

Fair value of financial instruments

The Company's financial instruments mainly consists of financial assets designated at fair value through income, loans and receivables and financial liabilities. The methods for recognition and measurement of financial instruments are disclosed in the Company's accounting policies. The fair values have been calculated and measured consistently with the methods described in the accounting policies.

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements. The table does not include fair values of non financial assets and non financial liabilities.

	2011 Carrying value	**Fair value**	2010 Carrying value	Fair value
Financial Assets at fair value through income				
Investments		**2,848,483**		2,426,148
Loans and receivables				
Cash and cash equivalents	**20,083**	**20,083**	36,559	36,559
Trade receivables	**46,014**	**46,014**	57,445	57,445
Total financial assets	**66,097**	**2,914,580**	94,004	2,520,152
Financial liabilities				
Trade payables	**23,166**	**23,166**	20,798	20,798
Insurance liabilities	**1,263,572**	**1,263,572**	1,086,741	1,086,741
Total financial liabilities	**1,286,738**	**1,286,738**	1,107,539	1,107,539

Financial assets and financial liabilities for which fair value approximates fair value.

Management considers the carrying amount of financial assets and financial liabilities that are liquid or have a short term maturity (less than 12 months) to approximate their fair value.

	2011 R'000	2010 R'000

11. SHARE CAPITAL

	2011 R'000	2010 R'000
Authorised and issued		
500,000 ordinary shares of 2 cents each	**10**	10
(2010: 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

	2011 R'000	2010 R'000
Statutory contingency reserve		
Opening balance	**37,281**	41,807
Movement	**1,438**	(4,526)
Closing balance	**38,719**	37,281
Total other reserves	**38,719**	37,281

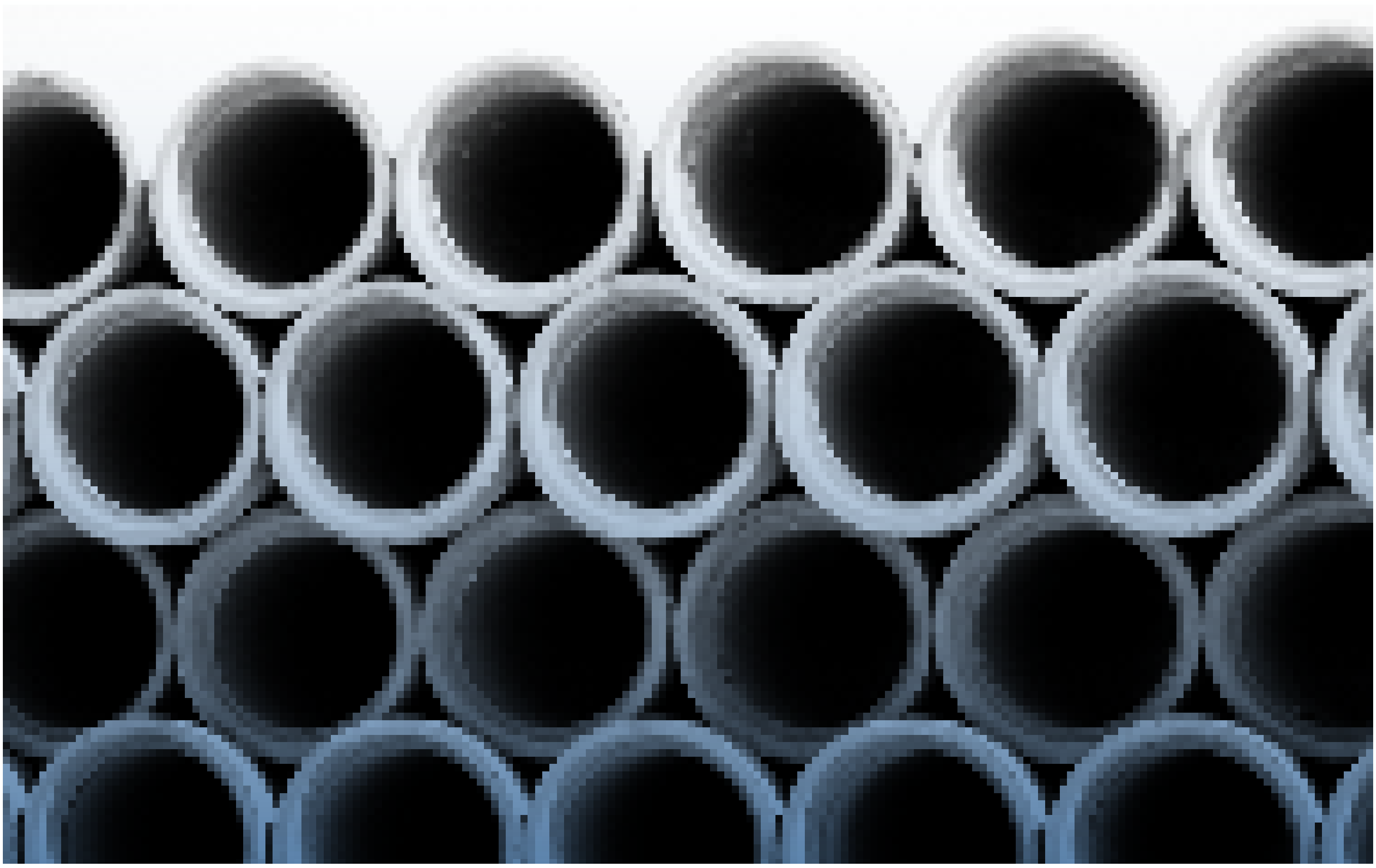
Total other reserves comprise the following balances:

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 less rebates as a statutory contingency reserve.

13. INCOME TAX

No current income tax has been accounted for as the company was exempted from income tax during the 2006 year. Refer Directors report for additional commentary regarding the tax exempt status of the Company.

	2011 R'000	2010 R'000
14. INSURANCE LIABILITIES AND REINSURANCE ASSETS		
Gross		
Outstanding claims	**195,864**	176,533
Capitalised value of pensions	**772,314**	628,769
Unearned premiums	**81,406**	77,398
Provision for rebates - non-current	**109,050**	109,385
Provision for rebates - current	**104,614**	94,374
Reinsurance premiums due	**324**	282
Total insurance liabilities – gross	**1,263,572**	1,086,741
Recoverable from reinsurers		
Outstanding claims recoveries	**(11,081)**	(10,235)
Total net insurance liabilities	**1,252,491**	1,076,506



	2011	2010
	R'000	R'000
14.1 Outstanding and unintimated claims		
Outstanding claims - reported claims	**180,326**	156,368
Incurred but not reported ("IBNR")	**15,538**	20,165
	195,864	176,533

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.

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 2008*	*2008*	*2009*	*2010*	*2011*
Estimate of ultimate claims costs (including IBNR)					
• at end of underwriting year	120,594	129,043	147,692	144,584	111,978
• one year later	115,580	126,096	120,473	136,604	-
• two years later	121,440	114,621	132,744	-	-
• three years later	102,300	127,212	-	-	-
• four years later	120,297	-	-	-	-
Current estimate of cumulative claims	120,297	127,212	132,744	136,604	111,978
Cumulative payments and pension awards to date	(88,845)	(100,180)	(100,614)	(96,231)	(47,100)
Liability recognised in balance sheet	31,452	27,032	32,130	40,373	**64,878**
Total liability recognised in the balance sheet					**195,864**

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

Accident / underwriting year	*2007*	*2008*	*2009*	*2010*	*2011*
• at end of underwriting year	9,245	9,450	9,313	8,537	7,324
• one year later	10,342	10,676	10,249	9,072	-
• two years later	10,417	10,854	10,337	-	-
• three years later	10,471	10,896	-	-	-
• four years later	10,490	-	-	-	-

14.1 Outstanding and unintimated claims (continued)

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

Accident / underwriting year	*2007*	*2008*	*2009*	*2010*	*2011*
	R	R	R	R	R
• at end of underwriting year	11,381	11,035	13,169	15,311	13,813
• one year later	10,954	11,586	13,490	14,775	-
• two years later	11,631	11,907	11,707	-	-
• three years later	12,225	10,650	-	-	-
• four years later	9,353	-	-	-	-

Movement in outstanding claims and IBNR

2011		***Gross***	***Reinsurance***	***Net***
Claims and benefits				
Notified claims		156,368	(10,235)	146,133
Incurred but not reported		20,165	-	20,165
Total at beginning of year		176,533	(10,235)	166,298
Cash paid for settled claims		(101,023)	8,001	(93,022)
Pensions awarded		(60,421)	-	(60,421)
Increase in liabilities		195,864	(8,847)	187,017
• arising from current year claims		111,978	(1,979)	109,999
• arising from prior year claims		83,886	(6,868)	77,018
Total at end of year		**210,953**	**(11,081)**	**199,872**
Notified claims		180,326	(11,081)	169,245
Incurred but not reported		15,538	-	15,538
Total at end of year		**195,864**	**(11,081)**	**184,783**
Movement for the year	Note 20	**19,331**	**(846)**	**18,485**

14.1 Outstanding and unintimated claims (continued)		***Gross***	***Reinsurance***	***Net***
2010				
Claims and benefits				
Notified claims		150,707	(9,998)	140,709
Incurred but not reported		17,227	-	17,227
Total at beginning of year		167,934	(9,998)	157,936
Cash paid for settled claims		(105,214)	4,220	(100,994)
Pensions awarded		(58,889)	-	(58,889)
Increase in liabilities		172,702	(4,457)	168,245
• arising from current year claims		144,584	(2,259)	142,325
• arising from prior year claims		28,118	(2,198)	25,920
Total at end of year		**176,533**	**(10,235)**	**166,298**
Notified claims		156,368	(10,235)	146,133
Incurred but not reported		20,165	-	20,165
Total at end of year		**176,533**	**(10,235)**	**166,298**
Movement for the year	Note 20	**8,599**	**(237)**	**8,362**

		2011 R'000	2010 R'000
14.2 Capitalised Value of Pensions			
Opening balance		**628,769**	556,176
Transfer from income statement	Note 20	**143,545**	72,593
Closing balance		**772,314**	628,769

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 2011 and 31 December 2010.

	2011 R'000	2010 R'000
14.2 Capitalised Value of Pensions (continued)		
The principal actuarial assumptions utilised in the calculation of the liability are as follows:		
Pensions liability assumptions		
Investment return	**8,00%**	8,00%
Annual pensions increases	**6,50%**	6,00%
Net discount rate	**1,50%**	2,00%
Expense assumptions		
Administration cost per pensioner	**R 1,650**	R 1,484
Investment return	**8,00%**	8,00%
Inflation	**6,50%**	6,50%

Assumptions used

Mortality and morbidity

HIV infection and AIDS mortality have been modelled by Ernst and Young using a proprietary HIV and AIDS demographic and financial 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 (ASSA). The most recently released model, ASSA2003 is being used.

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 have remained constant at 8.00% (2010: 8.00%), with reference to the yields at valuation date on the South African Government R207 and Government CPI bond R197.

Pension increases:

We have assumed that future pension increases will target inflation of 5.50% plus 1.00% (2010: 5.5% + 0.5%). We have therefore assumed a pension escalation of 6.50%.

Expense increases:

Expense inflation for 2012 onwards is assumed to be 6.50% 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 Ernst and Young's internal HIV and AIDS demographic and financial 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 (ASSA).

The HIV and 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 ASSA2003 AIDS and Demographic model, with some allowance for access to antiretroviral therapy.

	2011 R'000	2010 R'000
14.2 Capitalised value of pensions (continued)		
Experience adjustments in respect of independent external actuarial valuation (Performed as at 31 December 2011 and 2010)		
Opening balance (Valuation 2011 and 2010)	**628,769**	556,176
Unwinding of discount rate and expected benefit payments and expenses	**(30)**	799
Less release from higher than expected terminations	**(56,204)**	(78,264)
Less release from lower than expected expense increases	**-**	(866)
Plus addition from higher than expected expense increases	**2,001**	-
Plus revisions to membership data	**347**	(5,042)
Update membership for new pensioners	**62,563**	53,591
Change in termination and expense basis	**2,508**	8,817
First tier margins	**71,303**	56,204
Change in discount rate and economic assumptions	**-**	24,394
Change in expectation for pension increases	**32,483**	30,804
Explicit contingency margin	**-**	(28,975)
Catch-up increase to 100 of CPI purchasing power *(2010: 90%)*	**28,574**	11,131
Closing balance (Valuation 2011 and 2010)	**772,314**	628,769

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:

Net discount factor	**R'000**	%
0.5% increase or decrease in the net discount factor would impact the pension liability as follows:		
Current liability	**772,314**	
0.5% increase in net discount rate	**730,206**	
Impact on the liability	*(42,108)*	*(5,5%)*
0.5% decrease in net discount rate	**818,949**	
Impact on the liability	*46,635*	*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	**772,314**	
No HIV and AIDS Scenario	**852,021**	
Impact on the liability	*79,707*	*10,3%*
Higher Mortality (10% Increase in AIDS and Base Mortality)	**742,076**	
Impact on the liability	*(30,238)*	*(3,9%)*
Lower Mortality (10% Decrease in AIDS and Base Mortality)	**805,803**	
Impact on the liability	*33,489*	*4,3%*

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 and 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, are covered by bonds and investment link insurance policies (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 2011 as part of the year end valuation and prior to that, in December 2010. No material mis-matches were highlighted.

	2011 R'000	2010 R'000
14.3 Movement in unearned premium provision		
Unearned premium provision		
At beginning of year	**77,398**	71,968
Movement during the period (See note 17 Premium income)	**4,008**	5,430
• Increase in the period	**81,406**	77,398
• Release during the period	**(77,398)**	(71,968)
Total at end of year	**81,406**	77,398

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

	2011 R'000	2010 R'000
14.4 Provision for rebates		
Opening balance - non-current	**104,614**	94,374
Transfer to current	**(104,614)**	(94,374)
Charge to income statement	**105,539**	104,614
Closing balance – non-current	**105,539**	104,614
Opening balance - non-current pipeline premium	**4,771**	8,380
(Decrease) / increase in provision	**(1,260)**	(3,609)
Closing balance – non-current pipeline premium	**3,511**	4,771
Opening balance - current	**94,374**	80,863
Transfer from non-current	**104,614**	94,374
Rebates paid	**(88,690)**	(77,562)
Reversal to income	**(5,684)**	(3,301)
	104,614	94,374
Total charge for rebates paid and provided	**98,595**	97,704

	2011 R'000	2010 R'000
14.5 Reinsurance liabilities		
Minimum deposit premium	–	563
Pipeline premium	324	(281)
Reinsurance premiums due	324	282

15. ACCOUNTS PAYABLE

	2011 R'000	2010 R'000
Investment asset managers	411	4,223
Staff incentives	10,442	8,141
WCC uninsured Employers contribution	4,909	4,724
SARS (PAYE)	403	344
Outstanding cheques	55	81
Outstanding investment settlements	283	11
Operating lease adjustment	477	284
Consulting fees	179	131
Deloitte and Touche internal audit	223	267
Other	5,784	2,592
	23,166	20,798
0 to 1 year	18,600	16,876
2 to 3 years	4,566	3,922
	23,166	20,798

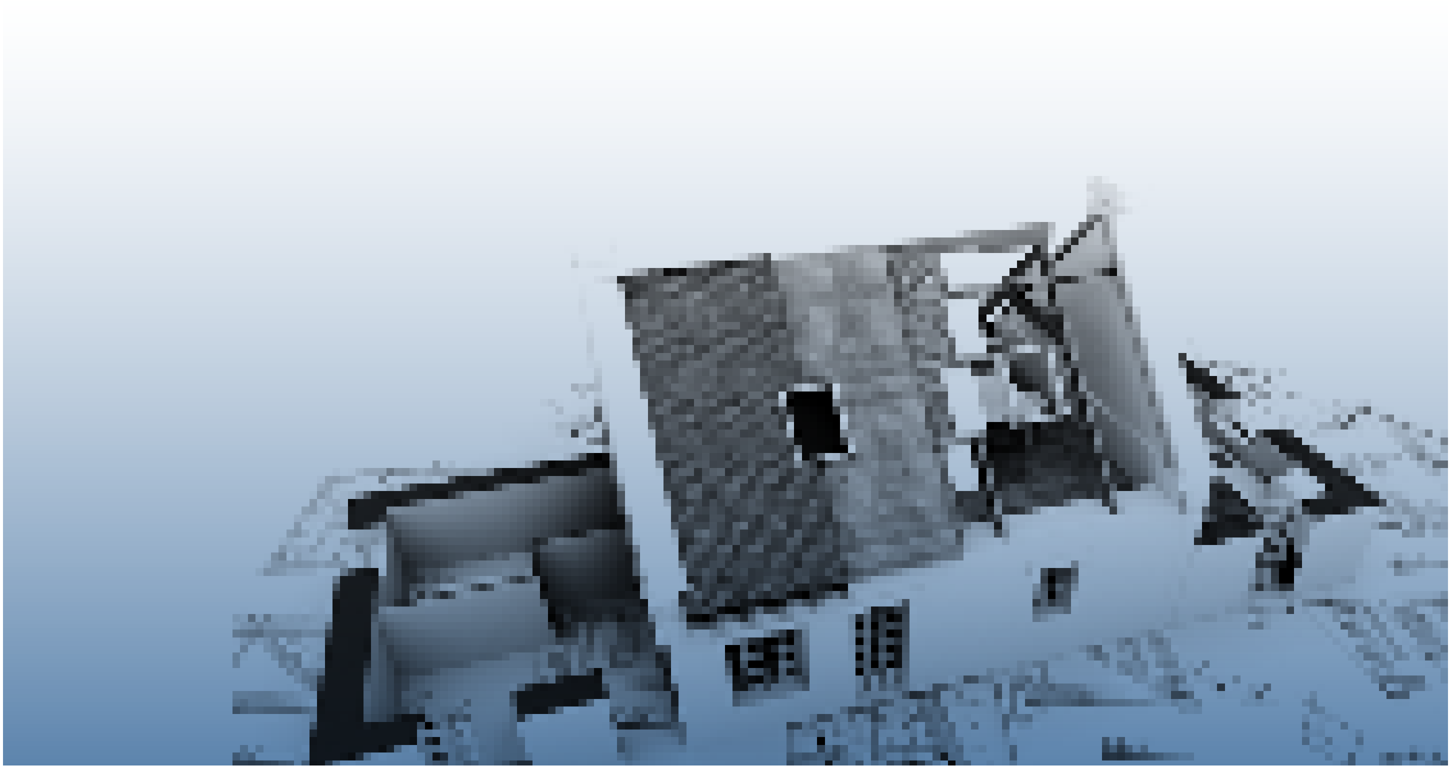
	Notes	2011 R'000	2010 R'000
16. EMPLOYEE LEAVE PROVISION			
Opening balance		1,346	1,385
Utilised during the year		(253)	(383)
Charge to statement of comprehensive income		540	344
Closing balance		1,633	1,346

	Notes	2011 R'000	2010 R'000
17. NET INSURANCE PREMIUM REVENUE			
Premium income	2.7	490,734	477,834
Estimated premium, net of allowances and write offs		471,680	451,350
Pipeline premium - current year		16,719	22,718
Adjustment to estimates - prior year		2,335	3,766
Change in unearned premium provision	2.7	(4,008)	(5,430)
Estimated premium		(4,978)	(8,208)
Pipeline premium		970	2,778
Insurance premium revenue		486,726	472,404
Estimated premium ceded		(5,226)	(5,906)
Pipeline premium ceded		(43)	202
Insurance premium revenue ceded	2.7	(5,269)	(5,704)
Net insurance premium revenue		481,457	466,700

The reinsurance cover for 2010 and 2009 was purchased with an inception date of 1 January, and there is therefore no unearned reinsurance asset at year-end.

	2011 R'000	2010 R'000
18. INVESTMENT INCOME		
Financial assets at fair value through income:		
Interest income		
• financial assets	**56,304**	56,528
• money market unit trusts	**12,521**	11,925
• investment bank account	**551**	3,796
• operational bank account	**1,188**	747
	70,564	72,996
Dividend income	**22,422**	38,734
Foreign exchange gains / (losses)	**25,683**	(31,347)
19. NET GAINS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME		
Realised gains on financial assets		
• equity securities	**6,030**	83,908
• debt securities	**12,422**	60,180
• Investment link insurance policies	**5,684**	92,844
• credit opportunities	**13,587**	-
• foreign investments	**317**	-
• money market instruments	**86**	-
Realised losses on financial assets		
• equity securities	**(1,104)**	(6,553)
• debt securities	**(5,629)**	(2,938)
	31,393	227,441
Unrealised gains / (losses) on financial assets		
• equity securities	**2,093**	(16,094)
• debt securities	**46,503**	20,833
• Investment link insurance policies	**(9,845)**	(80,336)
• foreign investment	**41,763**	13,808
• credit opportunities	**(12,569)**	16,776
	67,945	(45,013)
Total investment income	**218,007**	262,811

	Notes	2011 R'000	2010 R'000
20. INSURANCE CLAIMS AND BENEFITS			
Gross claims		**120,354**	113,813
Claims paid		**101,023**	105,214
Movement in claims liabilities	14.1	**19,331**	8,599
Claims		**13,014**	6,613
Pending pension awards		**6,317**	1,986
Gross pensions		**190,503**	116,114
Pensions paid		**46,958**	43,522
Movement in pensions liability	14.2	**143,545**	72,592
New pensions awarded		**62,563**	53,591
Other movement in pensions liability		**80,982**	19,001
Reinsurance		**(5,782)**	(10,413)
Claims paid recovered from reinsurers		**(8,001)**	(4,220)
Movement in reinsurance assets	14.1	**(846)**	(237)
Movement in reinsurance receivables		**3,065**	(5,956)
Net claims and benefits		**305,075**	219,514



	Gross	Reinsurance	Net
2011			
Claims			
Current year claims paid	46,953	-	46,953
Prior year claims paid	54,070	(8,001)	46,069
Total	**101,023**	**(8,001)**	**93,022**
Pensions			
Current year pensions awarded	17,416	-	17,416
Prior year pensions awarded	43,005	-	43,005
Total	**60,421**	**-**	**60,421**

2010	Gross	Reinsurance	Net
Claims			
Current year claims paid	53,333	-	53,333
Prior year claims paid	51,881	(4 220)	47,661
Total	**105,214**	**(4,220)**	**100,994**
Pensions			
Current year pensions awarded	17,416	-	17,416
Prior year pensions awarded	41,473	-	41,473
Total	**58,889**	**-**	**58,889**

	Notes	2011 R'000	2010 R'000
21. ADMINISTRATION EXPENSES			
Depreciation	5	**1,913**	1,882
Staff costs	21.1	**26,343**	22,820
Directors' fees and remuneration	27 and 28	**8,925**	7,772
Auditors' remuneration	21.2	**1,433**	1,232
Operating lease rentals		**3,784**	3,292
Profit on disposal of furniture, equipment and motor vehicle		**(165)**	(10)
BBBEE – Socio economic and skills development		**3,682**	242
BBBEE – Enterprise development		**3,000**	-
Claims recovery legal fees		**1,792**	707
Professional and other fees		**3,463**	1,943
Other expenses		**6,334**	6,744
		60,504	46,624
Administration expenses		**53,822**	45,914
BBBEE expenses		**6,682**	710
		60,504	46,624
21.1 Staff costs			
Basic salaries		**18,616**	16,553
Pensions		**2,349**	2,110
Medical aid		**1,318**	1,150
Training and recruitment		**473**	750
Motor vehicles		**1,124**	878
Incentives		**2,435**	1,215
Temporary staff		**28**	164
		26,343	22,820
Average number of employees		**75**	72

	2011 R'000	2010 R'000
21.2 Auditors' remuneration		
Auditors' remuneration		
Audit fees (current year)	**1,186**	975
Audit fees (prior year)	**247**	257
	1,433	1,232

22. CASH GENERATED BY OPERATIONS

	2011	2010
Profit for the year	**214,555**	339,536
Adjustments for		
• depreciation (Note 5)	**1,913**	1,882
• profit on disposal of furniture, equipment and motor vehicles (Note 21)	**(165)**	(10)
• net gains on financial assets at fair value through income (Note 19)	**(99,338)**	(182,428)
• changes in the impairment of insurance receivables (Note 8)	**4,100**	(358)
Changes in operating assets and liabilities		
• net decrease in insurance receivables	**4,926**	15,463
• net decrease other receivables	**3,251**	3,241
• net increase in reinsurance assets	**(846)**	(237)
• net increase in insurance liabilities	**176,831**	106,562
• net increase in trade and other payables	**2,368**	6,062
• net increase / (decrease) in employee leave provision (Note 16)	**287**	(39)
	307,882	289,674

23. RETIREMENT BENEFITS

Provident fund

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

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 21.

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

	2011	2010
	R'000	R'000
Not later than 1 year	**3,996**	1,760
Later than 1 year and not later than 5 years	**15,817**	753
	19,813	2,513

25. RELATED PARTIES

25.1 Related parties

The Federated Employers' Trust Limited ("FET")

The Federated Employers' Trust Limited ("FET") owns 48.4% (2010: 42.6%) of the issued share capital of the Company. FET was created to facilitate the movement in shares transferred to and redeemed from new and cancelled policyholders respectively.

Federated Employers' Trust ("The Trust")

The Trust, an inter-vivos trust, owns 100% of FET, and was created to hold the share capital of FET. The beneficiaries of The Trust are the policyholders of the Company. In terms of the Trust Deed, all reasonable expenditure incurred by the trust must be paid by the Company.

In 2011 the amount paid to The Trust in respect of administration costs amounted to R21k *(2010: R20k)* which is included in management expenses (Note 21).

25.2 Related party transactions

The Federated Employers' Trust Limited ("FET")

In 2011 FET charged the Company an administration fee of R53k *(2010: R53k)* for services rendered.

The net amount due by FET at 31 December 2011 is R109k *(2010: R66k).*

Operating lease rentals

The Company 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 R3,08 million *(2010: R3,02 million)*. There were no amounts due to the related party at year end.

Premium income

Certain non-executive directors have insurance policies with the Company in respect of their construction companies. 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:

		2011	2010
		R'000	R'000
Director	*Company name*		
Mr JR Barrow	Barrow Construction (Pty) Ltd	**404**	399
Mr GD Irons	Irons Construction (Pty) Ltd	**423**	474
Mr NF Maas	Gauteng Piling (Pty) Ltd and Free State Piling (Pty) Ltd	**252**	139
Total premium income		**1,079**	1,012

25.2 Related party transactions (continued)

Rebates paid

Certain non-executive directors that have insurance policies with the Company in respect of their construction companies 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:

		2011 R'000	2010 R'000
Director	*Company name*		
Mr JR Barrow	Barrow Construction (Pty) Ltd	**138**	145
Mr GD Irons	Irons Construction (Pty) Ltd	**334**	-
Mr NF Maas	Gauteng and Free State Piling (Pty) Ltd	**11**	18
Total		**483**	163

26. EXECUTIVE COMMITTEE COMPENSATION EXCLUDING EXECUTIVE DIRECTORS

	2011 R'000	2010 R'000
Total cost of employment, excluding vehicle expenses	**2,161**	1,922
Vehicle expenses	**367**	300
Incentives	**473**	340
Medium term retention	**536**	281
Total earnings (Included in staff costs - Note 21.1)	**3,537**	2,843

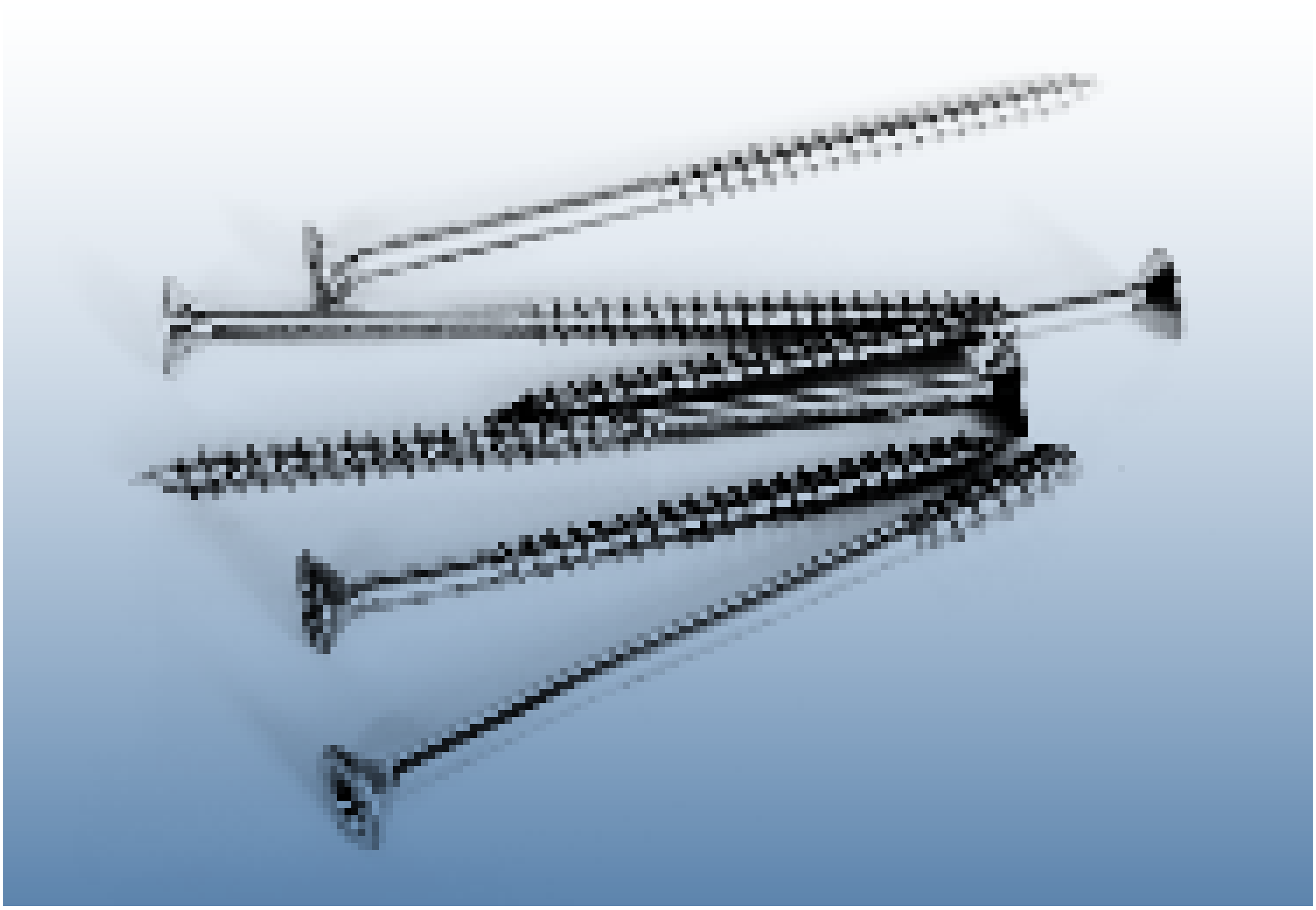
27. EXECUTIVE DIRECTORS' REMUNERATION

	2011 R'000	2010 R'000
27. EXECUTIVE DIRECTORS' REMUNERATION	**6,855**	5,765
Total cost of employment, excluding vehicle expenses	**5,327**	4,478
Vehicle expenses	**391**	337
Incentives	**1,137**	950
Total earnings (excluded in staff costs - Note 21.1)	**6,855**	5,765

	2011 R'000	2010 R'000
28. NON-EXECUTIVE DIRECTORS' FEES		
(included in professional and other fees - Note 21)	**2,070**	2,007

	2011 R'000	2010 R'000
29. DIRECTORS' REMUNERATION		
Executive Directors		
Mrs TT Pugh		
Basic salary	**1,306**	1,240
Provident fund	**140**	135
Medical aid	**29**	32
Leave encashment	**–**	66
Vehicle costs	**170**	151
Medium term retention	**1,045**	643
Incentive	**653**	546
Total earnings	**3,343**	2,813
Mr GM Mc Intosh		
Basic salary	**872**	831
Provident fund	**105**	100
Medical aid	**45**	41
Leave encashment	**43**	–
Vehicle costs	**122**	88
Medium term retention	**353**	180
Incentive	**242**	202
Total earnings	**1,782**	1,442
Mr A Daya		
Basic salary	**862**	823
Provident fund	**100**	96
Medical aid	**61**	57
Leave encashment	**23**	42
Vehicle costs	**99**	98
Medium term retention	**343**	192
Incentive	**242**	202
Total earnings	**1,730**	1,510
Total executive directors' earnings	**6,855**	5,765

	2011 R'000	2010 R'000
29. DIRECTORS' REMUNERATION (CONTINUED)		
Non-Executive Directors' fees		
Mr NF Maas (Chairman)	322	343
Mr JR Barrow	175	168
Mr MG Ilsley	316	303
Mr GD Irons	100	96
Dr APH Jammine	301	301
Mr CS Jiyane	147	130
Dr H Ngakane	193	176
Mrs PL Siphayi	176	158
Mr H Walker	340	332
Total non-executive directors' fees	2,070	2,007
Total directors' earnings	8,925	7,772



NOTICE IS HEREBY GIVEN that the annual general meeting of The Federated Employers' Mutual Assurance Company Limited will be held in the Boardroom, Building 2, 101 Central Street, Houghton, Johannesburg on Tuesday, 18 September 2012, commencing at 08h00 to – (i) consider and if deemed fit to pass, with or without modification, the resolutions set out below; and (ii) deal with such other business as may be dealt with at the AGM, or such adjournment thereof in the manner required in terms of the Companies Act, No. 71 of 2008, as amended ("Companies Act"). The record date for determining which Shareholders are entitled to participate in and vote at the AGM is 11 September 2012 ("Record Date"). Accordingly, only Shareholders who are registered in the register of members of the Company on the Record Date will be entitled to participate in and vote at the AGM.

The Shareholders and any other persons who are not Shareholders but who are entitled to exercise any voting rights in relation to the resolutions to be proposed at the AGM (irrespective of the form, title or nature of the securities to which those voting rights are attached) (collectively, the "Holders") as at the Record Date, are entitled to participate in and vote at the AGM in person or by proxy, and may appoint a proxy to exercise the voting rights attached to different securities held by the Holder. A proxy need not be a person entitled to vote at the meeting.

Annual Financial Statements

To receive the audited annual financial statements of the Company for the year ended 31 December 2011, including the Directors' Report and the report of the auditors thereon.

As Ordinary Resolutions:

Ordinary Resolution No 1

To re-elect directors in accordance with the Company's Memorandum of Incorporation

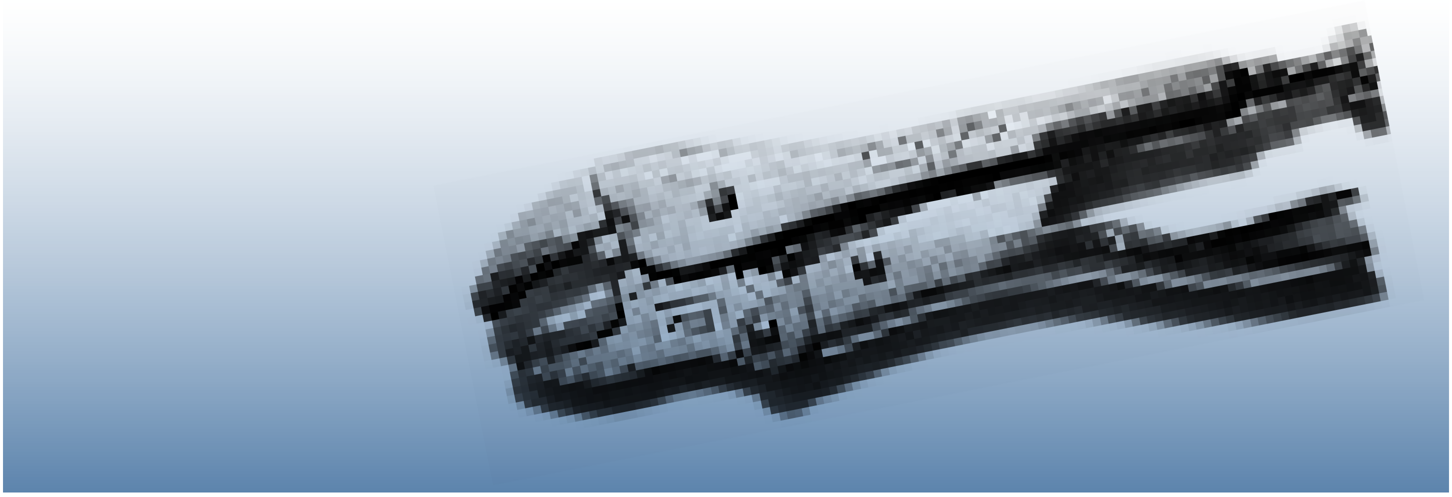
1. RESOLVED THAT, by way of a separate vote, each of the following directors who are retiring by rotation in terms of the Memorandum of Incorporation of the Company ("MOI") and being eligible, are offering themselves for re-election:

   1.1 Resolved that Mrs P L Siphayi retires as a director of the Company in accordance with the Company's MOI and being eligible for re-election, offers herself for re-election by the shareholders and be and is hereby re-elected as a director of the Company with immediate effect;

   1.2 Resolved that Mr MG Ilsley retires as a director of the Company in accordance with Company's MOI and being eligible for re-election, offers himself for re-election by the shareholders and be and is hereby re-elected as a director of the Company with immediate effect;

   1.3 Resolved that Mr A Daya retires as a director of the Company in accordance with Company's MOI and being eligible for re-election, offers himself for re-election by the shareholders and be and is hereby re-elected as a director of the Company with immediate effect;

   1.4 Resolved that Mr GM Mc Intosh retires as a director of the Company in accordance with Company's MOI and being eligible for re-election, offers himself for re-election by the shareholders and be and is hereby re-elected as a director of the Company with immediate effect.



Ordinary Resolution No 2
To elect the Members of the Audit Committee

To elect the following non-executive directors to the Audit Committee from the conclusion of the AGM at which this resolution is passed until the conclusion of the next AGM of the Company, in terms of Section 94(2) of the Companies Act No 71 of 2008, as amended ("the Act"):

2. RESOLVED THAT, by way of a separate vote, each of the following independent non-executive directors are elected as members of the Company's Audit and Risk Committee -

   2.1 Resolved that Mr MG Ilsley, an independent non-executive director, be and is hereby elected as a member and the chairman of the Company's Audit Committee, subject to the re-election of Mr MG Ilsley as a director in terms of ordinary resolution 1.2 above;

   2.2 Resolved that Mr JR Barrow, an independent non-executive director, be and is hereby elected as a member of the Company's Audit Committee;

   2.3 Resolved that Mrs PL Siphayi, an independent non-executive director, be and is hereby elected as a member of the Company's Audit Committee, subject to the re-election of Mrs PL Siphayi as a director in terms of ordinary resolution 1.1 above;

   2.4 Resolved that Mr H Walker, an independent non-executive director, be and is hereby elected as a member of the Company's Audit Committee.

Explanatory note to Resolution No 2

In terms of the Act, the Audit Committee is no longer a committee of the board but a committee elected by shareholders at each AGM. Furthermore, in terms of the Act, at least one third of the members of the Company's Audit Committee at any particular time must have academic qualifications or experience in economics, law, corporate governance, accounting, commerce, industry, public affairs or human resource management. It is confirmed that the members of the Audit Committee have the necessary qualifications and experience to serve.

Ordinary Resolution No 3
To appoint the external auditors of the Company

3. RESOLVED THAT, in terms of section 90 of the Companies Act and on the recommendation of the current Audit and Risk Committee, –

   3.1 PricewaterhouseCoopers Inc and SizweNtsalubaGobodo Inc be and are hereby appointed as joint independent registered auditors of the Company for the ensuing year terminating on the conclusion of the next AGM of the Company; and

   3.2 Gugu Mtetwa, being a director of PricewaterhouseCoopers Inc, and Nhlanhla Sigasa, being a director of SizweNtsalubaGobodo Inc., be and are hereby appointed as the individual registered auditors who will undertake the audit of the Company for the ensuing year terminating on the conclusion of the next AGM of the Company.

Ordinary Resolution No 4
Unissued shares to be placed under the control of the directors

4. RESOLVED THAT, subject to the provisions of the Act, the authorised but unissued ordinary shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors be and are hereby authorised and empowered to allot and issue, at their discretion, all or any of such ordinary shares for such purposes as they may determine, such authority being approved until the next AGM.

Ordinary resolution No 5
Directors' authority to implement special and ordinary resolutions

5. RESOLVED THAT, each and every director of the Company be and is hereby authorised to do all such things and sign all such documents as may be necessary for or incidental to the implementation of any of the ordinary resolutions and/or special resolutions passed at this AGM.

Special Resolutions

To consider and if deemed fit, pass the following resolutions as Special Resolutions:

Special Resolution No 1

Financial assistance to related and inter-related entities

1. RESOLVED THAT, the Board may, subject to compliance with the requirements of the Company's MOI and the Companies Act, authorise the provision by the Company, at any time and from time to time during the period of two (2) years commencing on the date of adoption of this special resolution, of direct or indirect financial assistance, by way of a loan, guaranteeing a loan or other obligation or the securing of a debt or other obligation to any one or more related or interrelated companies or corporations of the Company and/or to any one or more members of any such related or inter-related company or corporation related to any such company or corporation as contemplated in section 2 of the Companies Act, on such terms and conditions as the Board may deem fit.

   The Board will, before making any such financial assistance available, satisfy itself that:

   - immediately after providing the financial assistance, the Company will satisfy the solvency and liquidity test contemplated in section 4 of the Companies Act; and
   - the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

   Reason and effect of Special Resolution No 1

   The reason for the passing of this special resolution is that, on a strict interpretation of section 45 of the Companies Act, the Company may not provide the financial assistance contemplated in such section without a special resolution. The above resolution gives the Board the authority to authorise the Company to provide direct or indirect financial assistance, by way of a loan, guaranteeing of a loan or other obligation or securing of a debt or other obligation, to the recipients contemplated in special resolution number 1.

   It is difficult to foresee the exact details of financial assistance that the Company may be required to provide over the next two years. It is essential, however, that the Company is able to organise effectively its internal financial administration. For these reasons and because it would be impractical and difficult to obtain shareholder approval every time the Company wishes to provide financial assistance as contemplated above, it is necessary to obtain the approval of shareholders, as set out in special resolution number 1.

   It should be noted that this resolution does not authorise financial assistance to a director or a prescribed officer of the Company or any company, corporation or person related or inter-related to a director or prescribed officer.

   Such authority shall endure for a 2 (two) year period following the date upon which this special resolution is passed.

Special Resolution No 2

Approval of non-executive directors' remuneration

2. RESOLVED THAT, unless otherwise determined by the Company in general meeting, the fees payable to non-executive directors for their services as directors, for the financial year ending 31 December 2012, as set out below, and further that the Remuneration Committee be and is hereby authorised to apply an increase of no more than 10% to such remuneration for the financial year ending 31 December 2013, be and are hereby approved:

Name	Rand per annum
NF Maas	R340, 087
JR Barrow	R175, 601
MG Ilsley	R316, 140
GD Irons	R 99, 786
APH Jammine	R300, 862
CS Jiyane	R146, 910
H Ngakane	R202, 428
PL Siphayi	R175, 601
H Walker	R339, 669

The reason for this special resolution is to obtain shareholder approval for the remuneration of each of the non-executive directors of the Company in accordance with Section 66(9) of the Act.

General

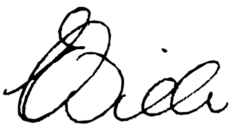
To transact such other business that may be transacted at an annual general meeting.

Voting And Proxies

A member entitled to attend and vote at the annual general meeting is entitled to appoint one or more proxies to attend and vote in his/her stead, subject to the general instructions attached to this notice. Any proxy so appointed need not be a member of the Company. Proxy forms must be received at the offices of the Company at least 48 hours, excluding Saturdays, Sundays and public holidays, before the appointed time of the meeting.

For the convenience of registered members of the company, a form of proxy is enclosed herewith.

By order of the board



E J Willis
Company Secretary
16 April 2012

Registered office
1st Floor, Building no. 2
101 Central Street
Houghton
2196

Postal address
Private Bag 87109
Houghton
2041

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 Tuesday, 18 September 2012 at 08h00.
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 18 September 2012, or at any adjournment or postponement thereof, and to vote for me/us as follows:

	Number of shares		
Item	For	Against	Abstain
1.1 PL Siphayi			
1.2 MG Ilsley			
1.3 A Daya			
1.4 GM McIntosh			
2.1 MG Ilsley			
2.2 JR Barrow			
2.3 PL Siphayi			
2.4 H Walker			
3.1 Appointment of Joint Auditors			
3.2 Appointment of Designated Auditors			
4. Unissued shares under control of directors			
5. Authority to execute requisite documentation			
6. Financial Assistance			
7. Non-Executive Directors' Remuneration			

(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, 2196

or

Private Bag 87109
Houghton
2041

REGIONAL OFFICES

Head office

1st 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

Branch Manager: H Enoch
National Claims Manager: Mrs J Mahlangu

Telephone: (011) 359-4300
Facsimile: (011) 359-4336 (claims)
(011) 359-4337 (underwriting)

Cape Town

8th Floor, 80 Strand Street
Cape Town, 8001
P O Box 2555, Cape Town, 8000

Chief Underwriting Officer: R Spreadbury
Claims Manager: Mrs Y Bassier

Telephone: (021) 443-2200
Facsimile: (021) 425-1544

Durban

Musgrave Office Tower
Office 901, 115 Musgrave Road
Berea, Durban, 4001
P O Box 50045, Musgrave Road, 4062

Branch Manager: S Munnoo
Claims Manager: Mrs A Gardiner

Telephone: (031) 277-0660
Facsimile: (031) 202-9750

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