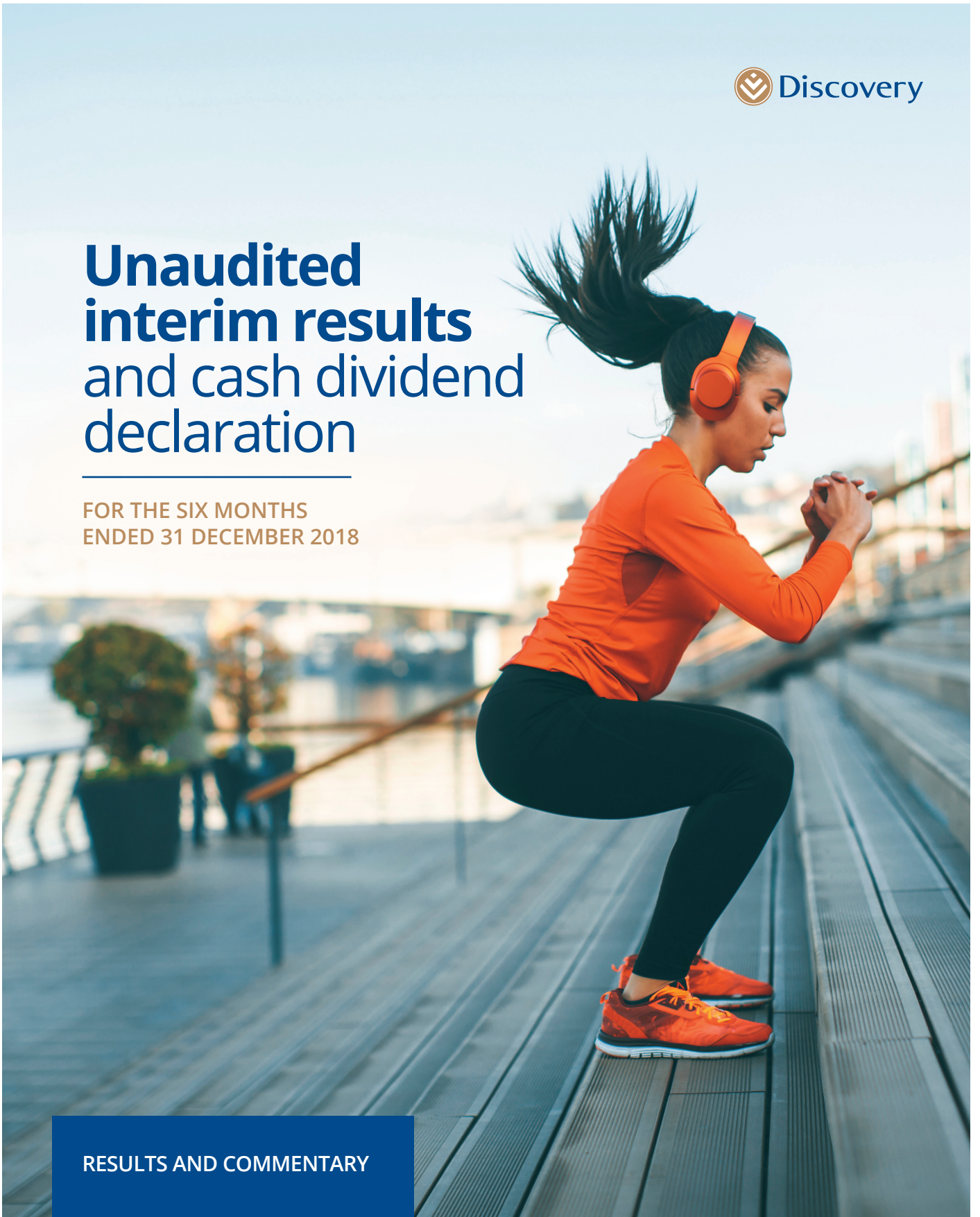


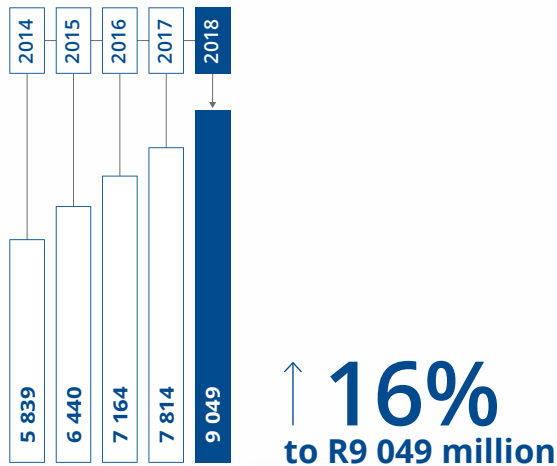
Unaudited interim results and cash dividend declaration

FOR THE SIX MONTHS
ENDED 31 DECEMBER 2018

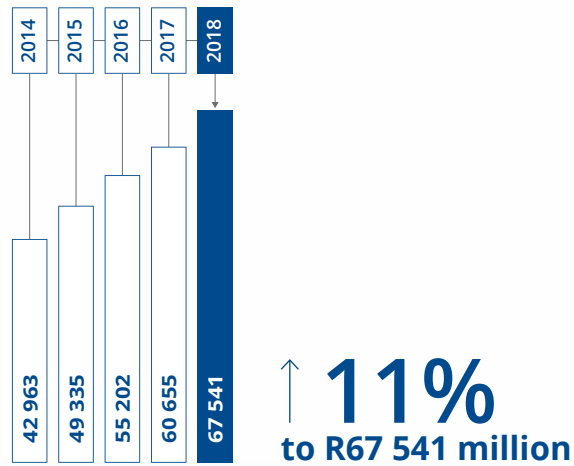
RESULTS AND COMMENTARY



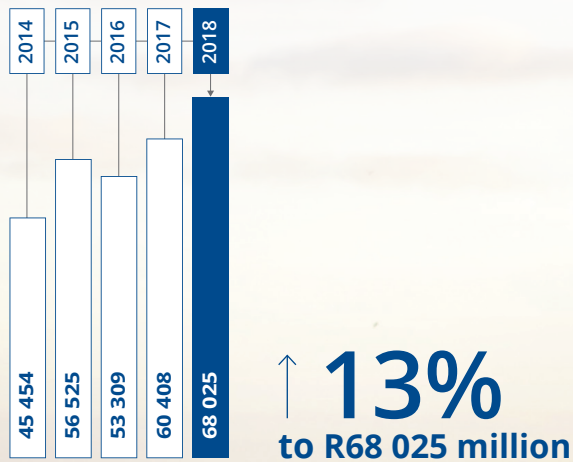
Core new business API (R million)



Gross inflows under management (R million)



Embedded value (R million)



21%
of Group earnings
invested in new
initiatives



Period of exceptional growth, with a temporary decline in profits due to considerable investment in new initiatives and large-claim volatility in Discovery Life

Commentary

HEADLINE PERFORMANCE

For its 2019 financial year, Discovery planned to increase investment in new strategic initiatives significantly, most notably the build and launch of Discovery Bank, creating an expected reduction in Group earnings¹.

For the six months ended 31 December 2018, Discovery's normalised profit from operations decreased by 4% to R3 799 million, headline earnings decreased by 18% to R2 252 million and normalised headline earnings decreased by 16% to R2 376 million. Spend on new initiatives² increased significantly over the period to 21% of Group earnings (including 3% from the associated financing costs). The spend on new businesses is in line with budget and fully provided for in the capital plan. New business annualised premium income (API)³ increased by 16% to R9 049 million, while the Group's financial leverage ratio (FLR) improved to 25% and the central cash buffer increased to R3.4 billion.

The performance for the period was a manifestation of the planned investment in five new businesses and a strong operating performance from all of Discovery's businesses, except Discovery Life, which experienced a spike in large mortality claims amounting to 8% of Group earnings for the six-month period. Discovery Life has altered its reinsurance structures to ameliorate large-claim volatility going forward.

The difference between normalised profit from operations and normalised headline earnings derives predominantly from three factors. As previously disclosed, an increase in borrowings resulted in an increase in finance costs of R128 million over the prior period, mainly due to funding investment in new initiatives. In addition, equity and bond market movements resulted in fair value losses of R116 million on shareholder investments (now reported on through profit or loss in terms of the newly adopted IFRS 9). Lastly, the accounting treatment of the finance lease relating to Discovery's head office (as explained in previous announcements), had a further increased impact of R55 million net of tax.

For the six-month period, normalised headline earnings per share (undiluted)⁴ decreased by 16% to 366.6 cents and headline earnings per share (undiluted) decreased by 18% to 347.4 cents.

STRATEGIC OBSERVATIONS

Discovery's core purpose has led to a Shared-Value business model that is applicable, scalable and globally relevant. This underpinned Ambition 2018 (to be the best insurer in the world and a powerful force for social good), which drove incredible growth across Discovery's businesses. Since setting Ambition 2018 five years ago, Discovery now touches 21.6 million lives, has a presence in 19 countries, and is using its influence to drive a global movement around behaviour change and wellness. This is evidenced by its pledge with its insurance partners to collectively make 100 million people 20% more active by 2025.

Discovery has set a bold new strategy for 2023 of leading a global transformation of financial services, impacting 100 million lives, with 10 million directly insured, and being a powerful force for social good. The Group is more deliberate about pursuing adjacencies and composites and in building the world's largest and most sophisticated behavioural platform linked to financial services.

Ambition 2023 requires the following:

- South Africa – the perfect composite model, number one in every industry, and a laboratory for shared-value in financial services
- United Kingdom – the best insurer in the UK through a composite Shared-Value model
- Vitality Group – the fastest growing and most global insurtech platform, with limited capital
- Ping An Health – the largest and most sophisticated health insurer in China

The above is underpinned by the Group's operating model, comprising a strong and profitable base of established businesses, rapidly growing emerging businesses, and a pipeline of substantial new businesses.

When the above strategies come together, it should result in global presence and relevance.

South Africa – the perfect composite model, number one in every industry, and a laboratory for shared-value in financial services

Discovery Health

Discovery Health (DH) delivered strong results for the period to 31 December 2018, despite a difficult macroeconomic environment. Normalised operating profit increased by 10% to R1 464 million, new business API increased by 2.9% to R3 420 million (excluding Vitality and the take-on of new closed medical schemes), and lives under management exceeded 3.5 million. The business continues to grow its market share in both the open and restricted medical scheme markets, and to extract operating efficiencies through ongoing investment in advanced technologies. Discovery Health Medical Scheme (DHMS) continues to show excellence, announcing a competitive contribution increase of 9.36% for 2019, with average contributions now 16.6% lower than that of competitors on a plan-by-plan basis. The Scheme achieved a total surplus of R814 million after investment income and year-end solvency of 27.3%, which is above the statutory requirement of 25%.

DH continued investing substantially in risk management assets and systems, quality improvement programmes, an integrated digital

¹ Normalised profit from operations.

² Excluding JV Card profits.

³ Excludes Discovery Health's take-on of new closed medical schemes and gross revenue for Vitality Group.

⁴ The percentage change in the current period is the same for both undiluted and diluted earnings per share.

technology platform, as well as data science and artificial intelligence capabilities and systems. These investments are driving significant progress in the expansion of DH's globally unique "shared-value health insurance" model to the benefit of members, and are making a significant contribution to improving operational efficiencies and driving down costs.

DH is committed to being a force for social good by collaborating with health professionals and all other stakeholders to ensure universal coverage within sustainable public and private healthcare systems, and maintains its support for the principles underpinning the National Health Insurance system.

Discovery Life

Discovery Life (DL) experienced a complex period due to the impact of the Solvency Assessment and Management (SAM) implementation (resulting in a release of R3.5 billion of capital to shareholders and hence the associated investment income moving below the line as shareholder income)⁵; the basis strengthening in the prior period; and a spike in high-value mortality claims. This resulted in normalised operating profit reducing by 13% to R1 500 million.

While the cost of claims was within premium loadings, skewness was demonstrated by the largest 4.5% of death claims amounting to 38% of the total cost of mortality claims. The claims experience did not appear to exhibit any material trends by either claims type or duration. Based on this, and similar volatility in previous periods, DL has altered its reinsurance structures to ameliorate large mortality claims volatility in future. Other aspects of the business performed well: Individual Life new business sales increased by 14% and lapses and policy alterations performed in line with expectation.

Discovery Life's Value of New Business (VNB) measured R480 million – down 3% due to a reduction in Group Life sales. The VNB margin remained unchanged from June 2018 at 10.7%.

Discovery Life continues to invest in innovation – both at a product and operational level. Its Bank integrator launched in September 2018 will give clients up to 15% upfront discount on their Life premiums based on their Discovery Bank account and Vitality Money status. Discovery Life continued to increase its new business market share in its target market during the period.

Discovery Invest

Discovery Invest's performance was robust amid weak financial markets. Operating profit grew by 9% to R455 million, driven by a 7% increase in assets under administration to R83.1 billion, with 78% of linked funds in Discovery funds. Net inflows amounted to R3.6 billion over the period. Strong sales of guaranteed products and single premium endowments pushed new business growth including ACIs to 14%. The focus over the period was refining the use of the Shared-Value model in the context of long-term savings.

The Discovery Collective Investment Scheme remained in the top 10 retail flow takers while the Discovery Balanced Fund continued to perform well, placing in the first performance quartile over three years. The business saw continued evidence of positive behaviour change because of the Shared-Value model: duration to retirement

increased by three years; additional ad-hoc investments increased 2.8 times; and withdrawals from linked annuities reduced by 11.5% to be below the industry average. The Umbrella Retirement Funds product has been well received with a pleasing pipeline of new business.

Discovery Insure

Discovery Insure (DI) saw continued growth in the period, achieving R51 million profit – 325% higher than the prior year period. Gross Premium Income grew by 21% to over R1.5 billion. The business also launched its new commercial insurance division, attracting strong interest from the intermediary market. Furthermore, SoftBank Vision Fund invested US\$500 million in Cambridge Mobile Telematics (CMT), an associate investment of Discovery and strategic partner to Discovery Insure since 2014. The transaction will reduce Discovery's effective shareholding in CMT to approximately 10% on a fully diluted basis, and generate approximately US\$55 million (R780 million) profit for Discovery. As the transaction completed after the reporting period, it will only reflect in Discovery's full-year results.

DI's strategy is centred on the most effective use of technology to deliver shared-value outcomes to clients. Key developments over the period included: the relationship with global Internet of Things services provider Sigfox through SqwidNet – the Sigfox operator in South Africa – was formalised; collaboration and development resourcing with CMT was enhanced to continue innovating on the smartphone telematics platform; and key features and processes were added to support Discovery Insure's CrowdSearch rollout.

DI continued to strengthen the extension of its model into the car rental business through AVIS SafeDrive. The number of SafeDrive sales per day grew by 575% and there has been a significant reduction in the average damage costs per day of rental cars on Vitality Drive compared to that of a typical rental car.

Finally, the business continues to explore the opportunity to extend the model into international markets as an extension of the Global Vitality Network.

Discovery Bank

Discovery Bank launched in November 2018 for beta testing with a public rollout expected in March 2019. The public launch will be carefully managed, with priorities being the acceptance of retail deposits and migration of Discovery credit card clients to Discovery Bank. The venture was accelerated with the completion of the deal with FirstRand Group that sees the Bank now wholly owned by Discovery. In addition, the Bank finalised its restructure and new acquisitions, now owning 100% economic interest in the Discovery Card Joint Venture. The Bank is now receiving 100% of the Discovery Card JV results.

Discovery Card's performance is 6% less than the same period in the prior year. The decrease in performance is primarily driven by costs on the FirstRand Group platform increasing at a rate higher than revenue growth. Bad debts as a percentage of advances is 1.56%, which is evidence of the high quality of the book in the Discovery Card JV.

⁵ The comparative has been restated to include risk reserve investment income of R118 million below operating profit, to afford better comparability.

The Bank's launch to the public is later than originally estimated. Considerable focus has been placed on technology and operational readiness. There is a slight over-run compared with the original budget but costs are largely in line with expectation and the client offering is significantly enhanced. In addition, attention is currently on the card migration and retail funding strategies. A successful launch, with a great client experience, is reliant on these inter-dependent core factors and the take-on of client volumes will be carefully managed to limit risks.

To end December 2018, a total of R6 billion has been invested in the Bank. This comprises: R3.28 billion paid to FirstRand Group; R1.31 billion regulatory capital invested in the Bank and R1.42 billion incurred in Discovery Central Services on the build capital expenditure, test capital expenditure and hardware infrastructure. In spite of some delays, the project has been managed well given the magnitude and complexity of setting up a full digital retail bank.

The best insurer in the UK through a composite Shared-Value model

Vitality UK

Discovery's UK business produced excellent results during the first half of the financial year. Combined new business increased by 13% to R1.2 billion (£66.5 million), with operating profit growing by 21% to R746 million (£41 million) and total lives growing by 13% to 1.147 million.

Engagement in Vitality reached an all-time high over the 2018 calendar year, with a 45% increase in points-earning activities related to healthy behaviours and high levels of reward utilisation. The Active Rewards benefit saw particular success, generating 72% of all points-earning activities. Vitality issued its 100 000th Apple Watch through Active Rewards in January 2019. The period also saw enhancement of the Vitality behavioural platform, with Amazon Prime added as a partner.

VitalityHealth

VitalityHealth (VH) continued the outstanding performance it experienced in the previous financial period. New business increased by 18% to R616 million (£33.7 million), with the highly profitable Individual segment increasing by 34% to 58% of total sales. Operating profit increased by 26% to R446 million (£24.4 million), reflecting continued strong performance across all business metrics: claims performance and lapse rates persisted at historic lows, reflecting the combined effect of specific claims and retention initiatives, and the selection and retention benefits of Vitality. Costs remained well managed, with reductions in operational costs per life.

During the financial year to date, the VH back book generated excess cash of R853 million (£46.7 million). After new business acquisition costs and investment in developing the business, a R225 million (£12.3 million) cash surplus was generated.

VitalityLife

VitalityLife (VL) showed steady progress over the period under review, delivering new business API growth of 8% to R600 million (£32.8 million), and operating profit growth of 15% to R300 million (£16.4 million). The increase in new business volumes was driven by strong growth in direct-to-consumer sales, which now contribute over 10% of total sales. Despite economic uncertainty, the fundamentals of the business remain strong, with management action taken in the previous period resulting in significant improvement, with both lapses and claims experience within expectation.

VitalityLife continued its leading innovation by launching a world-first solution to cover the rising costs of later life, including those related to degenerative conditions such as Alzheimer's disease and dementia.

VitalityInvest

Launched in June 2018, VitalityInvest brings together behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and look after their health. The initial focus has been to educate the broker market on the business's investment platform and the member benefits of taking out Vitality funds. These incentives are unique in the UK investment marketplace.

In November 2018, VitalityInvest launched its direct-to-consumer offering, and a protector range of funds was launched in February 2019 to meet the customer need for investment growth, while offering capital protection. The Protector Fund range will initially consist of two funds, both of which will invest in structured products provided by Investec Bank plc. These new initiatives are launched in advance of the key UK investment season prior to the April tax year-end. Total assets on the platform are £10.6 million. VitalityInvest marks an important step in building out the UK's composite model.

The fastest-growing and most global insurtech platform, with limited capital

Vitality Group

Vitality Group (VG) made excellent progress over the period, taking two new markets (Sumitomo Life Vitality and AIA South Korea) live on its Vitality1 Platform, concluding a number of new growth opportunities and seeing strong growth from its more mature markets. Vitality Group profits increased to US\$6.7 million (R95 million, up 179% from the prior year), driven by maturing operations and strong growth from insurance partners' integrated insurance premiums of US\$470 million (R6.7 billion, up 249% over the prior period). Membership from insurance partnerships increased by 95% to 1.1 million.

Vitality1

The globally unified systems architecture platform has grown to over 800 000 users since it went live in August 2018. This single, standardised, enabling technology allows Discovery to scale and repeat – and build the largest behavioural platform linked to financial services.

Vitality USA

In its effort to build a broader behaviour-change platform, Vitality Group through Vitality USA joined forces with Aetna, Apple and CVS Health to introduce Attain, Aetna's new rewards programme. Attain is built off the Vitality model and will be administered by Vitality USA. Vitality USA grew its operating profit to US\$1.4 million, an increase of 34% over the comparative period.

INSURANCE PARTNERSHIPS

Sumitomo Life Vitality

Since the launch of Sumitomo Life Vitality in July 2018, there has been an encouraging increase in policy count, driven by high-level buy-in from sales agents in Japan. Sumitomo Life Vitality sales are far greater than historical sales witnessed in any other market at the same stage of operation – a testament to Vitality's widely successful value proposition and the progress made by Vitality Group in entering new markets.

AIA Vitality

AIA Vitality continues to generate impressive sales of Vitality-integrated products with strong growth in Annualised New Premiums and Vitality membership. With the rollout of the Vitality1 Platform in South Korea, AIA Korea began offering protection products and AIA Vitality to customers of SK Telecom, a leading telecommunications service provider with over 30 million customers. The launch has received an encouraging response and a surge in participation in the programme. AIA continues to explore opportunities to roll out Vitality in more markets across the Asia-Pacific region.

John Hancock and Manulife Vitality

Both John Hancock Vitality and Manulife Vitality demonstrated good growth in revenue, new business and membership numbers over the period. John Hancock successfully launched Vitality GO in September 2018 (adding Vitality to all its life policies, with a buy up option to full Vitality, called PLUS) and is now working towards including a version of Vitality on its back book. Enhancement to both the GO and PLUS programmes will continue to aid in the success of the new upsell feature.

Manulife Vitality is on track to deliver Group Benefits in Q1 2019, which will give all of Manulife's employer clients and 1.5 million employees access to Vitality on the Vitality1 Platform. In terms of retail, programme enhancements such as the addition of the Apple Watch Series 4 and a Hotels.com benefit have seen exceptional take-up from members.

Generali Vitality

Progress is being made in expanding the distribution channels and Vitality membership grew 79% on aggregate in Germany, France and Austria, despite the sale of Generali Leben (the primary distribution channel) in July 2018 by the Generali Germany business. Vitality Group foresees potential future growth following the introduction of Generali Vitality-linked insurance products to the Deutsche Vermögensberatung broker channel in 2018.

Vitality Active

In terms of VG's partnership with Hannover Re to expand Shared-Value Insurance products into next tier markets, the period saw the conclusion of three new partnerships, bringing the total number of insurers signed to five. Vitality Group is excited about the market launch of IGI Life Vitality in Pakistan in January 2019, which was well attended by the business community and media. Two more markets are scheduled to launch before the end of 2019.

The largest and most sophisticated health insurer in China

Ping An Health

Ping An Health (PAH) had a remarkable six months with new business premium growing by 117% to RMB 2.1 billion (R4.3 billion – 100% of new business) with the majority originating from e-sheng Bao (the internet product).

PAH significantly increased its investment in scaling and automating operations, digitising consumer engagement and growing its sales capabilities and reach. The PAH app also saw increased investment because of its strategic role in PAH's vision of becoming "China's leading tech-driven health insurer". Discovery is excited by the investment made by PAH to ensure it can achieve its full potential in the Chinese market. Additionally, Discovery invested R36.1 million (an increase of 43% over the prior period) in projects and expertise to support the growth of PAH, as well as injecting R160 million of capital.

The effect of these investments is a reduction in the short-term margins achieved by the business, in exchange for long-term growth and margin. Therefore, Discovery's operating profit before tax from PAH grew 26% to R61 million, while revenue grew 84% to RMB 3.4 billion (R7 billion). Discovery's share of PAH operating profit (before Discovery costs) increased to R98 million before tax (a 32% growth from the prior comparative period). As the business scales and matures, it is expected that operating margins will increase. The extent of investment in digitisation and infrastructure has been validated following the reporting period with PAH taking on 100 000 policies in a single day in January 2019.

In the 2017 calendar year, PAH used its assessed historical tax losses to offset its taxable income for that period. The effect on 2018 is that the effective tax rate and the impact of the regulatory tax charge on commissions of over 10% increased significantly. This has reduced the net after tax and Discovery's equity accounted profits after non-recoverable costs to R12 million, a 66% decrease over the prior period.

In 2018, PAH aggressively expanded its distribution reach across China. Ping An Health has changed its partnership agreement with Ping An Life (PAL) to extend coverage to more areas not covered by PAH's operating licences. This change has effectively allowed an additional 500 000 PAL sales agents to sell PAH-developed products. PAH has also been working with the regulators to increase the

number of areas where it is licensed to sell its products directly. In 2018, it opened six new branches and now has 10 branches in megacities (for example, Beijing, Shanghai, Shenzhen) and eight in smaller cities, giving it access to a population of over 300 million. PAH plans to open another 10 branches in smaller cities in 2019, which would give it access to an additional ±90 million people.

Vitality Group remains focused on adding value to Ping An Health and is playing a key role in increasing the sophistication of PAH's capabilities in underwriting, pricing, analytics, and clinical risk management.

PROSPECTS FOR GROWTH

Discovery's established businesses are well positioned for growth, with Discovery Life expected to revert to target growth levels. Similarly, Discovery's emerging businesses are expected to grow strongly going forward. Discovery's new businesses will require investment through their start-up phase, however, the 21% spend on new businesses is expected to decrease over the next few years towards previous levels. Profit growth is expected to return to its stated goal of CPI plus 10% and the business is well capitalised for its five-year planning horizon.

On behalf of the Board

MI HILKOWITZ
Chairperson

A GORE
Group Chief Executive

Sandton
20 February 2019

Notes to analysts:

Any forecast financial information contained in this announcement has not been reviewed or reported on by Discovery's external auditors.

Discovery has published supplemental unaudited information on the website. For this and other results information, go to <https://www.discovery.co.za/corporate/investor-relations> and page down to financial results and reports, Interim Results 2019.

STATEMENT OF FINANCIAL POSITION

at 31 December 2018

R million	Group December 2018 Unaudited	Group June 2018 Audited
ASSETS		
Assets arising from insurance contracts	46 284	43 625
Property and equipment	4 322	4 272
Intangible assets	4 964	5 491
Deferred acquisition costs	495	1 150
Contract assets from customers	731	-
Goodwill	2 268	2 247
Investment in equity-accounted investments	1 500	1 159
Financial assets		
- Available-for-sale investments	-	7 547
- Investments at amortised cost	1 546	-
- Investments at fair value through profit or loss	78 931	71 246
- Derivative financial instruments at fair value	479	494
- Loans and receivables including insurance receivables	10 290	7 543
Deferred income tax	1 808	1 968
Current income tax asset	58	38
Reinsurance contracts	299	308
Cash and cash equivalents	10 765	10 894
Total assets	164 740	157 982
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	10 148	8 308
Perpetual preference share capital	779	779
Other reserves	1 223	1 280
Retained earnings	27 804	27 227
	39 954	37 594
Non-controlling interest	*	*
Total equity	39 954	37 594
LIABILITIES		
Liabilities arising from insurance contracts	63 512	61 488
Liabilities arising from reinsurance contracts	9 717	8 918
Financial liabilities		
- Borrowings at amortised cost	14 679	14 079
- Investment contracts at fair value through profit or loss	18 051	17 927
- Derivative financial instruments at fair value	167	78
- Trade and other payables	9 535	9 043
Deferred income tax	8 273	8 007
Deferred revenue	-	324
Contract liabilities to customers	299	-
Employee benefits	218	232
Current income tax liability	335	292
Total liabilities	124 786	120 388
Total equity and liabilities	164 740	157 982

* Amount is less than R500 000.

INCOME STATEMENT

for the six months ended 31 December 2018

R million	Group Six months ended December 2018 Unaudited	Group Six months ended December 2017 Unaudited	% change	Group Year ended June 2018 Audited
Insurance premium revenue	21 301	17 758		36 685
Reinsurance premiums	(2 741)	(2 127)		(4 356)
Net insurance premium revenue	18 560	15 631	19%	32 329
Fee income from administration business	4 610	4 477		9 252
Vitality income	2 410	2 199		4 491
Other income	401	-		-
Investment income	553	446		895
- investment income earned on shareholder investments and cash ¹	247	142		281
- investment income earned on assets backing policyholder liabilities ¹	306	304		614
Net realised gains on available-for-sale financial assets	-	8		10
Net fair value (losses)/gains on financial assets at fair value through profit or loss	(2 085)	4 806		5 823
Net income	24 449	27 567	(11%)	52 800
Claims and policyholders' benefits	(12 011)	(9 767)		(20 714)
Insurance claims recovered from reinsurers	1 834	1 366		2 735
Net claims and policyholders' benefits	(10 177)	(8 401)	21%	(17 979)
Acquisition costs	(2 953)	(2 846)		(5 594)
Marketing and administration expenses	(9 685)	(8 449)		(17 219)
Amortisation of intangibles from business combinations	(61)	(63)		(123)
Recovery of expenses from reinsurers	1 393	1 237		2 542
Net transfer to/from assets and liabilities under insurance contracts	168	(4 031)		(4 859)
- change in assets arising from insurance contracts	2 530	2 278		5 141
- change in assets arising from reinsurance contracts	(10)	21		36
- change in liabilities arising from insurance contracts	(1 595)	(5 442)		(8 088)
- change in liabilities arising from reinsurance contracts	(757)	(888)		(1 948)
Fair value adjustment to liabilities under investment contracts	703	(1 155)		(1 308)
Profit from operations	3 837	3 859	(1%)	8 260
Finance costs	(681)	(390)		(959)
Foreign exchange profits/(losses)	6	(17)		(4)
Gain on dilution of equity-accounted investments	51	-		-
Share of net profits from equity-accounted investments	60	82		115
Profit before tax	3 273	3 534	(7%)	7 412
Income tax expense	(947)	(837)	13%	(1 677)
Profit for the period	2 326	2 697	(14%)	5 735
Profit attributable to:				
- ordinary shareholders	2 286	2 656	(14%)	5 652
- preference shareholders	40	41		83
- non-controlling interest	*	*		*
	2 326	2 697	(14%)	5 735
Earnings per share for profit attributable to ordinary shareholders of the company during the period (cents):				
- undiluted	352.7	411.7	(14%)	876.1
- diluted	352.5	411.5	(14%)	875.6

* Amount is less than R500 000.

¹ With the introduction of the Solvency Assessment and Management regulatory regime (SAM) on 1 July 2018, the risk reserve is no longer required to be fully backed by tangible financial assets and hence some assets that previously backed positive risk reserves were released into shareholder funds. The classification of 'Investment income earned on shareholder investments and cash' and 'Investment income earned on assets backing policyholder liabilities' have been restated accordingly.

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the six months ended 31 December 2018

R million	Group Six months ended December 2018 Unaudited	Group Six months ended December 2017 Unaudited	% change	Group Year ended June 2018 Audited
Profit for the period	2 326	2 697	(14%)	5 735
Items that are or may be reclassified subsequently to profit or loss:				
Change in available-for-sale financial assets¹	-	27		37
- unrealised gains	-	54		64
- capital gains tax on unrealised gains	-	(21)		(19)
- realised gains transferred to profit or loss	-	(8)		(10)
- capital gains tax on realised gains	-	2		2
Currency translation differences	167	(315)		840
- unrealised gains/(losses)	171	(321)		856
- tax on unrealised (gains)/losses	(4)	6		(16)
Cash flow hedges	(26)	205		2
- unrealised gains	105	393		200
- tax on unrealised gains	(26)	(71)		(32)
- gains recycled to profit or loss	(130)	(140)		(188)
- tax on recycled gains	25	23		22
Share of other comprehensive income from equity-accounted investments	3	(24)		42
- change in available-for-sale financial assets ¹	-	(4)		(9)
- currency translation differences	3	(20)		51
Other comprehensive income/(losses) for the period, net of tax	144	(107)	235%	921
Total comprehensive income for the period	2 470	2 590	(5%)	6 656
Attributable to:				
- ordinary shareholders	2 430	2 549	(5%)	6 573
- preference shareholders	40	41		83
- non-controlling interest	*	*		*
Total comprehensive income for the period	2 470	2 590	(5%)	6 656

* Amount is less than R500 000.

¹ This category is no longer available under IFRS 9: Financial instruments.

HEADLINE EARNINGS

for the six months ended 31 December 2018

R million	Group Six months ended December 2018 Unaudited	Group Six months ended December 2017 Unaudited	% change	Group Year ended June 2018 Audited
Basic earnings per share (cents):				
– undiluted	352.7	411.7	(14%)	876.1
– diluted	352.5	411.5	(14%)	875.6
Headline earnings per share (cents):				
– undiluted	347.4	426.1	(18%)	899.6
– diluted	347.2	425.8	(18%)	899.0
Normalised headline earnings per share (cents):				
– undiluted	366.6	438.5	(16%)	837.4
– diluted	366.4	438.3	(16%)	836.9
The reconciliation between earnings and headline earnings is shown below:				
Net profit attributable to ordinary shareholders	2 286	2 656	(14%)	5 652
Adjusted for:				
– gain on dilution of equity-accounted investments	(51)	–		–
– gain on disposal of property and equipment net of capital gains tax	–	–		(3)
– impairment of intangible assets net of tax	17	99		162
– realised gains on available-for-sale financial assets net of capital gains tax	–	(6)		(8)
Headline earnings	2 252	2 749	(18%)	5 803
– accrual of dividends payable to preference shareholders	–	–		1
– amortisation of intangibles from business combinations net of deferred tax	54	55		109
– debt restructuring costs resulting from DiscoveryCard joint venture transaction	33	–		–
– deferred tax asset raised on assessed losses	–	–		(352)
– deferred tax timing difference related to new 'adjusted IFRS' tax basis	–	–		(119)
– duplicate building costs	–	25		37
– unrealised losses/(gains) on foreign exchange contracts not designated as hedges	26	–		(77)
– initial expenses related to Prudential Book transfer	11	–		(1)
Normalised headline earnings	2 376	2 829	(16%)	5 401
Weighted number of shares in issue (000's)	648 030	644 986		645 014
Diluted weighted number of shares (000's)	648 318	645 344		645 408

Refer to 'Other significant items in these results' for details on the accounting treatment of Discovery's new head office.

The International Financial Reporting Standards (IFRS) results reflect finance costs and depreciation as required by IAS 17 and the accounting treatment is not normalised. If normalised headline earnings were to be adjusted for the impact of the accounting treatment of the new head office lease, it would result in an increase of R102 million (2017: R47 million), net of tax, in normalised headline earnings to R2 478 million (2017: R2 876 million) (decrease of 14% compared to the same period in the prior year). This adjustment would be calculated by replacing the depreciation of R105 million and finance charges of R178 million recognised in line with IFRS, with the actual market related rentals of R141 million, and adjusting for tax. Normalised headline earnings per share (with market related cash rentals) would be 382.5 cents per share on an undiluted basis and 382.3 cents per share on a diluted basis.

STATEMENT OF CHANGES IN EQUITY

at 31 December 2018

R million (unaudited)	Attributable to equity holders of the Company		
	Share capital and share premium	Preference share capital	Share-based payment reserve
Period ended 31 December 2018			
At beginning of the period	8 308	779	327
IFRS transitional adjustments	-	-	-
Adjusted balance at beginning of the period	8 308	779	327
Total comprehensive income for the period	-	40	-
Profit for the period	-	40	-
Other comprehensive income	-	-	-
Transactions with owners	1 840	(40)	7
Delivery of treasury shares	3	-	-
Share issue	1 854	-	-
Share issue costs	(17)	-	-
Change in ownership without change in control	-	-	-
Employee share option schemes:			
- Value of employee services	-	-	7
Dividends paid to preference shareholders	-	(40)	-
Dividends paid to ordinary shareholders	-	-	-
At end of the period	10 148	779	334
Period ended 31 December 2017			
At beginning of the period	8 306	779	314
Total comprehensive income for the period	-	41	-
Profit for the period	-	41	-
Other comprehensive income	-	-	-
Transactions with owners	-	(41)	5
Employee share option schemes:			
- Value of employee services	-	-	5
Dividends paid to preference shareholders	-	(41)	-
Dividends paid to ordinary shareholders	-	-	-
At end of the period	8 306	779	319

¹ This relates to the fair value adjustments of available-for-sale financial assets. This category is no longer available under IFRS 9: Financial instruments.

* Amount is less than R500 000.

Attributable to equity holders of the Company

Available- for-sale investments ¹	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
208	744	1	27 227	37 594	*	37 594
(208)	-	-	131	(77)	-	(77)
-	744	1	27 358	37 517	*	37 517
-	170	(26)	2 286	2 470	-	2 470
-	-	-	2 286	2 326	-	2 326
-	170	(26)	-	144	-	144
-	-	-	(1 840)	(33)	-	(33)
-	-	-	-	3	-	3
-	-	-	-	1 854	-	1 854
-	-	-	-	(17)	-	(17)
-	-	-	(1 104)	(1 104)	-	(1 104)
-	-	-	-	7	-	7
-	-	-	-	(40)	-	(40)
-	-	-	(736)	(736)	-	(736)
-	914	(25)	27 804	39 954	*	39 954
180	(147)	(1)	22 859	32 290	*	32 290
23	(335)	205	2 656	2 590	*	2 590
-	-	-	2 656	2 697	*	2 697
23	(335)	205	-	(107)	*	(107)
-	-	-	(632)	(668)	-	(668)
-	-	-	-	5	-	5
-	-	-	-	(41)	-	(41)
-	-	-	(632)	(632)	-	(632)
203	(482)	204	24 883	34 212	*	34 212

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2018

R million	Group Six months ended December 2018 Unaudited	Group Six months ended December 2017 Unaudited	Group Year ended June 2018 Audited
Cash flow from operating activities	(1 829)	1 736	3 414
Cash generated by operations	5 004	5 034	10 875
Purchase of investments held to back policyholder liabilities	(10 908)	(16 634)	(24 217)
Proceeds from disposal of investments held to back policyholder liabilities	4 954	12 937	16 179
Working capital changes	(1 026)	236	250
	(1 976)	1 573	3 087
Dividends received	149	92	252
Interest received	1 111	1 007	2 062
Interest paid	(616)	(307)	(759)
Taxation paid	(497)	(629)	(1 228)
Cash flow from investing activities	125	(1 613)	(2 433)
Purchase of financial assets	(9 803)	(13 191)	(23 631)
Proceeds from disposal of financial assets	11 392	12 908	23 621
Purchase of property and equipment	(308)	(426)	(470)
Proceeds from disposal of property and equipment	17	1	7
Purchase of software and other intangible assets	(961)	(885)	(1 940)
Increase in equity-accounted investments	(212)	(20)	(20)
Cash flow from financing activities	1 533	566	609
Proceeds from issuance of ordinary shares	1 854	-	-
Shares issue costs	(17)	-	-
Dividends paid to ordinary shareholders	(736)	(632)	(1 284)
Dividends paid to preference shareholders	(40)	(41)	(83)
Increase in borrowings	2 133	1 655	2 654
Repayment of borrowings	(1 661)	(416)	(678)
Net (decrease)/increase in cash and cash equivalents	(171)	689	1 590
Cash and cash equivalents at beginning of the period	10 894	9 097	9 097
Exchange gains/(losses) on cash and cash equivalents	42	(15)	201
Cash and cash equivalents at end of the period	10 765	9 771	10 888
Reconciliation to statement of financial position			
Cash and cash equivalents	10 765	9 771	10 894
Bank overdraft included in borrowings at amortised cost	-	-	(6)
Cash and cash equivalents at end of the period	10 765	9 771	10 888

The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes.

Refer to 'Significant transactions affecting the current results' for detail of the impact of consolidating the DUT on the Statement of cash flows.

ADDITIONAL INFORMATION

at 31 December 2018

Fair value hierarchy of financial instruments

The Group's financial instruments measured at fair value have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflect the significance of the inputs used in measuring fair value. These are as follows:

Level 1 includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 includes financial instruments that are valued using techniques based significantly on observable market data. Instruments in this category are valued using:

- (a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active or
- (b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3 includes financial instruments that are valued using valuation techniques that incorporate information other than observable market data and where at least one input (which could have a significant effect on instruments' valuation) cannot be based on observable market data.

R million (unaudited)	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	29 638	–	–	29 638
– Equity linked notes	–	2 651	–	2 651
– Debt securities	16 596	2 242	–	18 838
– Inflation linked securities	973	–	–	973
– Money market securities	4 536	6 732	–	11 268
– Mutual funds	15 563	–	–	15 563
Derivative financial instruments at fair value:				
– Hedges	–	349	–	349
– Non-hedges	–	130	–	130
	67 306	12 104	–	79 410
Financial liabilities				
Investment contracts at fair value through profit and loss	–	18 051	–	18 051
Derivative financial instruments at fair value:				
– Hedges	–	156	–	156
– Non-hedges	–	11	–	11
	–	18 218	–	18 218

There were no transfers between level 1 and 2 during the current financial period.

ADDITIONAL INFORMATION continued

at 31 December 2018

Fair value hierarchy of financial instruments continued

R million (audited)	30 June 2018			Total
	Level 1	Level 2	Level 3	
Financial assets				
Financial instruments at fair value through profit or loss:				
- Equity securities	29 769	873	-	30 642
- Equity linked notes	-	211	-	211
- Debt securities	15 120	534	-	15 654
- Inflation linked securities	1 096	-	-	1 096
- Money market securities	610	5 255	-	5 865
- Mutual funds	17 778	-	-	17 778
Available-for-sale financial instruments ¹ :				
- Equity securities	166	9	-	175
- Equity linked notes	-	20	-	20
- Debt securities	840	573	-	1 413
- Inflation linked securities	2	-	-	2
- Money market securities	2 382	1 787	-	4 169
- Mutual funds	1 768	-	-	1 768
Derivative financial instruments at fair value:				
- Hedges	-	337	-	337
- Non-hedges	-	157	-	157
	69 531	9 756	-	79 287
Financial liabilities				
Investment contracts at fair value through profit and loss	-	17 927	-	17 927
Derivative financial instruments at fair value:				
- Hedges	-	51	-	51
- Non-hedges	-	27	-	27
	-	18 005	-	18 005

¹ This category is no longer available under IFRS 9: Financial Instruments.

Specific valuation techniques used to value financial instruments in level 2

- Discovery has invested in equity linked notes offered by international banks in order to back certain unit-linked contract liabilities. The calculation of the daily value of the equity linked investments is made by the provider of the note. Discovery has procedures in place to ensure that these prices are correct. Aside from the daily reasonableness checks versus similar funds and movement since the prior day's price, the fund values are calculated with reference to a specific formula or index, disclosed to the policyholders, which is recalculated by Discovery in order to check if the price provided by the provider is correct.
- If a quoted market price is not available on a recognised stock exchange or from a broker for non-exchange traded financial instruments, the fair value of the instrument is estimated by the asset managers, using valuation techniques including the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.
- The fair value of the hedged derivatives is calculated as follows:
 - (a) The fair value of call options is calculated on a Black-Scholes model.
 - (b) The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.
 - (c) The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Exchange rates used in the preparation of these results

	USD	GBP
31 December 2018		
- Average	14.17	18.27
- Closing	14.39	18.33
30 June 2018		
- Average	12.86	17.33
- Closing	13.81	18.16
31 December 2017		
- Average	13.32	17.67
- Closing	12.32	16.65

SEGMENTAL INFORMATION

for the six months ended 31 December 2018

R million (unaudited)	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	26	5 947	7 476	-
Reinsurance premiums	(1)	(1 224)	-	-
Net insurance premium revenue	25	4 723	7 476	-
Fee income from administration business	3 521	-	1 008	-
Vitality income	-	-	-	1 126
Other income	192	20	-	78
Investment income earned on assets backing policyholder liabilities	-	164	33	-
Finance charge on negative reserve funding	-	-	-	-
Inter-segment funding ¹	-	(403)	403	-
Net fair value gains on financial assets at fair value through profit or loss	8	301	(1 717)	1
Net income	3 746	4 805	7 203	1 205
Claims and policyholders' benefits	(3)	(4 094)	(4 456)	-
Insurance claims recovered from reinsurers	-	1 132	-	-
Net claims and policyholders' benefits	(3)	(2 962)	(4 456)	-
Acquisition costs	(3)	(905)	(579)	(44)
Marketing and administration expenses				
- depreciation and amortisation	(118)	(2)	(2)	(4)
- impairment	-	-	-	-
- other expenses	(2 160)	(918)	(443)	(1 137)
Recovery of expenses from reinsurers	-	-	-	-
Transfer from assets/liabilities under insurance contracts				
- change in assets arising from insurance contracts	-	1 610	-	-
- change in assets arising from reinsurance contracts	-	4	-	-
- change in liabilities arising from insurance contracts	-	(108)	(1 388)	-
- change in liabilities arising from reinsurance contracts	-	(23)	-	-
Fair value adjustment to liabilities under investment contracts	-	(1)	120	-
Share of net profits from equity-accounted investments	2	-	-	-
Normalised profit/(loss) from operations	1 464	1 500	455	20
Investment income earned on shareholder investments and cash	31	155	18	18
Net fair value gains on financial assets at fair value through profit or loss	-	(104)	(12)	-
Gain on dilution of equity-accounted investments	-	-	-	-
Initial expenses related to Prudential Book transfer and other	-	-	-	-
Amortisation of intangibles from business combinations	-	-	-	-
Market rentals related to Head Office building adjusted for finance costs and depreciation	-	-	-	-
Finance costs	(6)	(2)	-	-
Foreign exchange losses	-	-	5	-
Profit before tax	1 489	1 549	466	38
Income tax expense	(388)	(395)	(132)	(11)
Profit for the period	1 101	1 154	334	27

¹ The inter-segment funding of R403 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments			IFRS total
				UK Life ²	DUT ³	Disclosure adjustments ⁴	
4 134	2 312	1 744	21 639	(338)	-	-	21 301
(663)	(1 028)	(163)	(3 079)	338	-	-	(2 741)
3 471	1 284	1 581	18 560	-	-	-	18 560
10	-	80	4 619	-	-	(9)	4 610
239	68	977	2 410	-	-	-	2 410
-	-	121	411	-	-	(10)	401
6	17	86	306	-	-	-	306
-	19	-	19	(19)	-	-	-
-	-	-	-	-	-	-	-
(5)	(32)	(8)	(1 452)	-	(462)	(171)	(2 085)
3 721	1 356	2 837	24 873	(19)	(462)	(190)	24 202
(2 222)	(494)	(891)	(12 160)	149	-	-	(12 011)
529	250	72	1 983	(149)	-	-	1 834
(1 693)	(244)	(819)	(10 177)	-	-	-	(10 177)
(324)	(960)	(157)	(2 972)	19	-	-	(2 953)
(120)	(17)	(203)	(466)	-	-	(105)	(571)
-	-	(18)	(18)	-	-	-	(18)
(1 520)	(986)	(1 909)	(9 073)	(34)	(121)	132	(9 096)
388	968	37	1 393	-	-	-	1 393
-	786	-	2 396	134	-	-	2 530
(23)	5	-	(14)	4	-	-	(10)
17	(8)	(212)	(1 699)	(4)	21	87	(1 595)
-	(600)	-	(623)	(134)	-	-	(757)
-	-	-	119	-	562	22	703
-	-	58	60	-	-	-	60
446	300	(386)	3 799	(34)	-	(54)	3 711
1	6	18	247	-	-	-	247
-	-	(36)	(152)	-	-	152	-
-	-	51	51	-	-	-	51
-	(14)	(2)	(16)	-	-	16	-
-	-	(61)	(61)	-	-	-	(61)
-	-	(142)	(142)	-	-	142	-
-	(2)	(502)	(512)	-	-	(169)	(681)
-	-	1	6	-	-	-	6
447	290	(1 059)	3 220	(34)	-	87	3 273
(40)	(45)	117	(894)	34	-	(87)	(947)
407	245	(942)	2 326	-	-	-	2 326

The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. The segment total is then adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:

2 The VitalityLife results, for business written on the Prudential Assurance Company license, are reclassified to account for the contractual arrangement as a reinsurance contract under IFRS 4.

3 The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. In the Segment information the DUT column includes the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.

4 The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.

SEGMENTAL INFORMATION continued

for the six months ended 31 December 2017

R million (unaudited)	SA Health	SA Life Restated ²	SA Invest	SA Vitality Restated ³
Income statement				
Insurance premium revenue	12	5 416	5 656	-
Reinsurance premiums	(1)	(1 081)	-	-
Net insurance premium revenue	11	4 335	5 656	-
Fee income from administration business ⁷	3 212	-	919	-
Vitality income ⁷	-	-	-	1 007
Other income ⁷	118	14	-	69
Investment income on assets backing policyholder liabilities	-	211	21	-
Finance charge on negative reserve funding	-	-	-	-
Inter-segment funding ¹	-	(339)	339	-
Net fair value gains on financial assets at fair value through profit or loss	1	258	3 356	-
Net income	3 342	4 479	10 291	1 076
Claims and policyholders' benefits	(1)	(3 325)	(3 425)	-
Insurance claims recovered from reinsurers	4	768	-	-
Net claims and policyholders' benefits	3	(2 557)	(3 425)	-
Acquisition costs	(2)	(846)	(520)	(36)
Marketing and administration expenses				
- depreciation and amortisation	(158)	(4)	-	-
- impairment of intangible assets	-	-	-	-
- other expenses	(1 856)	(799)	(393)	(1 025)
Recovery of expenses from reinsurers	-	-	-	-
Net transfer to/from assets and liabilities under insurance contracts				
- change in assets arising from insurance contracts	-	1 518	-	-
- change in assets arising from reinsurance contracts	-	4	-	-
- change in liabilities arising from insurance contracts	-	(53)	(5 311)	-
- change in liabilities arising from reinsurance contracts	-	(20)	-	-
Fair value adjustment to liabilities under investment contracts	-	(1)	(223)	-
Share of profits from equity accounted investments	3	-	-	-
Normalised profit/(loss) from operations	1 332	1 721	419	15
Investment income earned on shareholder investments and cash	37	48	13	17
Net realised gains on available-for-sale financial assets	-	5	-	-
Net fair value gains on financial assets at fair value through profit or loss	-	93	-	-
Amortisation of intangibles from business combinations	-	-	-	-
Market rentals related to Head Office building adjusted for finance costs and depreciation ⁸	-	-	-	-
Finance costs	(29)	(4)	-	-
Foreign exchange losses	(1)	-	(4)	-
Profit before tax	1 339	1 863	428	32
Income tax expense	(349)	(472)	(120)	(9)
Profit for the period	990	1 391	308	23

1 The inter-segment funding of R339 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.

2 With the introduction of the Solvency Assessment and Management regulatory regime (SAM) on 1 July 2018, the risk reserve is no longer required to be fully backed by tangible financial assets and hence some assets that previously backed positive risk reserves were released into shareholder funds. Investment income on these investments have been restated to include risk reserve interest of R118 million below operating profit, to afford better comparability. This has been presented as R25 million in 'Investment income earned on shareholder investments and cash' and R93 million of 'Net fair value gains on financial assets at fair value through profit or loss' below operating profit.

UK Health	UK Life	All other segments Restated ³	Segment total	IFRS reporting adjustments				IFRS total
				UK Life ⁴	DUT ⁵	Disclosure adjustments ⁶	IFRS 15 adjustments ⁷	
3 776	1 992	1 264	18 116	(358)	-	-	-	17 758
(575)	(744)	(84)	(2 485)	358	-	-	-	(2 127)
3 201	1 248	1 180	15 631	-	-	-	-	15 631
19	-	280	4 430	-	-	9	38	4 477
224	47	710	1 988	-	-	-	211	2 199
-	-	48	249	-	-	-	(249)	-
5	6	61	304	-	-	-	-	304
-	(119)	-	(119)	119	-	-	-	-
-	-	-	-	-	-	-	-	-
-	75	(13)	3 677	-	1 056	73	-	4 806
3 449	1 257	2 266	26 160	119	1 056	82	-	27 417
(2 010)	(402)	(806)	(9 969)	202	-	-	-	(9 767)
445	235	116	1 568	(202)	-	-	-	1 366
(1 565)	(167)	(690)	(8 401)	-	-	-	-	(8 401)
(276)	(915)	(132)	(2 727)	(119)	-	-	-	(2 846)
(126)	(7)	(93)	(388)	-	-	(28)	-	(416)
(109)	-	-	(109)	-	-	-	-	(109)
(1 422)	(734)	(1 569)	(7 798)	(7)	(105)	(14)	-	(7 924)
300	937	-	1 237	-	-	-	-	1 237
-	1 083	-	2 601	(323)	-	-	-	2 278
13	4	-	21	-	-	-	-	21
90	(6)	(22)	(5 302)	-	-	(140)	-	(5 442)
-	(1 191)	-	(1 211)	323	-	-	-	(888)
-	-	-	(224)	-	(951)	20	-	(1 155)
1	-	78	82	-	-	-	-	82
355	261	(162)	3 941	(7)	-	(80)	-	3 854
1	2	24	142	-	-	-	-	142
-	-	3	8	-	-	-	-	8
-	-	-	93	-	-	(93)	-	-
-	-	(63)	(63)	-	-	-	-	(63)
-	-	(47)	(47)	-	-	47	-	-
(1)	-	(317)	(351)	-	-	(39)	-	(390)
-	-	(12)	(17)	-	-	-	-	(17)
355	263	(574)	3 706	(7)	-	(165)	-	3 534
(37)	(48)	51	(984)	7	-	140	-	(837)
318	215	(523)	2 722	-	-	(25)	-	2 697

The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS⁸: Segment reporting. In line with this assessment at 30 June 2018, the following change was required:

³ The management control over the credit card operations in the Group has moved from Discovery Vitality to Discovery Bank and disclosed accordingly in the segmental report in "All other segments".

The segment total is then adjusted for accounting reclassifications and entries required to produce IFRS compliant results. These adjustments include the following:

⁴ The contractual arrangement, for business written on Prudential Assurance Company's (PAC's) life insurance license (up to 31 December 2015), is reclassified as a reinsurance contract under IFRS 4.

⁵ The Discovery Unit Trusts (DUT) are consolidated into Discovery's results for IFRS purposes. In the Segment information the DUT column includes the effects of consolidating the unit trusts into Discovery's results, effectively being the income and expenses relating to units held by third parties.

⁶ The effects of eliminating intercompany transactions on consolidation and normalised operating profit adjustments.

⁷ Items disclosed in the various revenue line items have been reallocated to align with performance obligations in terms of IFRS 15. As a result, the prior year figures presented in the segmental report have been restated to include such adjustments. In order to achieve comparability with previously reported figures these adjustments are being reversed in the 'IFRS 15 adjustments' column.

⁸ The segmental report has been restated to present the accounting treatment of the Head office building in line with the current year disclosure.

REVIEW OF GROUP RESULTS

for the six months ended 31 December 2018

New business annualised premium income

The new business annualised premium income (API) set out below provides a view of the scale of new business across all operations of the Group and does not necessarily reflect the new business attributable to the legal entities within the Group. For instance, Discovery Health Medical Scheme (DHMS) new business is attributable to the medical scheme but is under the administration and marketing of Discovery Health which earns a fee in respect of such services.

Core new business API increased 16% for the six months ended 31 December 2018 when compared to the same period in the prior year.

R million	December 2018	December 2017	% change
Discovery Health – DHMS	2 728	2 763	(1)
Discovery Health – Closed Schemes ¹	692	561	23
Discovery Life	1 212	1 121	8
Discovery Invest	1 387	1 220	14
Discovery Insure	517	495	4
Discovery Vitality	80	78	3
VitalityHealth	616	522	18
VitalityLife	600	557	8
Ping An Health ²	1 080	497	117
Other new businesses	137	-	100
Core new business API of Group	9 049	7 814	16
New Closed Schemes ¹	18	78	(77)
New business API of Group including new Closed Schemes	9 067	7 892	15
Gross revenue Vitality Group ³	441	324	36
Total new business API and other new business	9 508	8 216	16

¹ The new business API for Closed Schemes includes additional lives on existing closed schemes. The new business API for New Closed Schemes includes contracted new business API and business in the first twelve months of on-boarding. Closed Schemes refer to those restricted to certain employers and industries.

² Previously Ping An Health included 100% of the new business API. At June 2018, this has been restated to only include 25% in line with the Group's effective shareholding of 25% of this associate. The comparative for December 2017 has been restated accordingly.

³ Vitality Group new business includes gross recurring and lump sum revenues earned by Vitality Group and specifically excludes revenue related to cost recoveries and rewards.

Calculation of new business annualised premium income (API)

New business API is calculated at 12 times the monthly premium for new recurring premium policies and 10% of the value of new single premium policies. It also includes both automatic premium increases and servicing increases on existing long-term insurance policies. The amounts exclude indirect taxes.

The new business API in the table above differs from the new business API disclosed in the embedded value largely as a result of:

- The timing of inclusion of policyholders in the calculation of new business API – In the embedded value, new business is included from the earlier of the date that the first premium has been received or when the policy is on risk, whereas in the table above, new business is included when the policy has been contractually committed.
- Inclusion of automatic premium increases and servicing increases on existing life policies – These are included in the table above but excluded in the embedded value API values disclosed.

Refer to the footnotes to Table 7: Embedded Value of New Business for a more detailed description of the differences in new business disclosures between the embedded value and the table above.

Gross inflows under management

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased 11% for the six months ended 31 December 2018 when compared to the same period in the prior year.

R million	December 2018	December 2017	% change
Discovery Health	39 405	36 283	9
Discovery Life	5 967	5 430	10
Discovery Invest	11 280	9 506	19
Discovery Insure	1 558	1 279	22
Discovery Vitality ¹	1 204	1 076	12
VitalityHealth	4 383	4 019	9
VitalityLife	2 380	2 039	17
All other businesses	1 364	1 023	33
Gross inflows under management	67 541	60 655	11
Less: collected on behalf of third parties	(38 462)	(35 872)	7
Discovery Health	(35 666)	(32 941)	8
Discovery Invest	(2 796)	(2 931)	(5)
Gross income of Group per the segmental information	29 079	24 783	17
Gross income is made up as follows:			
- Insurance premium revenue	21 639	18 116	19
- Fee income from administration business	4 619	4 430	4
- Vitality income	2 410	1 988	21
- Other income	411	249	65
Gross income of Group per the segmental information	29 079	24 783	17

¹ In line with the disclosures at 30 June 2018, the comparative for December 2017 has been restated by R227 million to include the DiscoveryCard joint venture gross inflows under management in 'All other businesses', which was previously included in Discovery Vitality gross inflows under management. This restatement was necessary as the management control over the credit card operations in the Group has moved from Discovery Vitality to Discovery Bank and disclosed accordingly in the segmental report.

REVIEW OF GROUP RESULTS continued

for the six months ended 31 December 2018

Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the six months ended 31 December:

R million	December 2018	December 2017	% change
Discovery Health	1 464	1 332	10
Discovery Life ¹	1 500	1 721	(13)
Discovery Invest	455	419	9
Discovery Vitality ²	20	15	33
VitalityHealth	446	355	26
VitalityLife	300	261	15
Normalised profit from established businesses	4 185	4 103	2
Emerging businesses	169	99	71
– Discovery Insure	62	29	114
– Vitality Group ³	107	70	53
Development and other segments ^{2,3}	(555)	(261)	(113)
Normalised profit from operations	3 799	3 941	(4)

¹ Investment income earned on assets backing policyholder liabilities is accounted for in operating profit while investment income earned on **tangible** shareholder funds are shown as investment income below operating profit. With the introduction of the Solvency Assessment and Management regulatory regime (SAM) on 1 July 2018, the risk reserve is no longer required to be **fully** backed by tangible financial assets and **hence some assets that previously backed positive risk reserves were released into shareholder funds**. Investment income on these investments have therefore not been included in operating profit for the current period and the comparative has been restated to include risk reserve interest of R118 million in investment income below operating profit, to afford better comparability.

² The comparatives have been restated to reallocate the DiscoveryCard joint venture and the additional 54.99% DiscoveryCard profit share from established businesses to 'Development and other segments'. This restatement was necessary as the management control over the credit card operations in the Group has moved from Discovery Vitality to Discovery Bank and disclosed accordingly in the segmental report. The Discovery Card joint venture and 54.99% DiscoveryCard profit share amounts to R124 million (2017: R124 million).

³ Strategic initiatives previously included in Vitality Group have been reallocated to 'Development and other segments' as new initiatives, as they have evolved into larger opportunities and strategic initiatives across the Group. The comparatives have been restated by R33 million. A significant part of this includes Vitality1 which was originally envisaged as a replacement for the legacy Vitality system used across the globe. The vision for Vitality1 has evolved into making it the leading behavioural change platform enabling shared-value insurance and financial services products across the Discovery Group.

Emerging businesses are those businesses that have achieved sufficient scale to be profitable or profitable in the near future, although not yet significant in cash generation for the Group and likely to require funds to support new business growth. These businesses are approximately 5 years or more into their launch. Discovery Insure, excluding commercial insurance, and Vitality Group have been disclosed as Emerging businesses.

Development and other segments include costs of start-up businesses and expenses incurred to investigate, research and develop new products and markets. Start-up costs include costs in relation to, amongst others, the Discovery Bank, the UK investment business, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Discovery Invest. Head office costs are also included in this segment.

Significant transactions affecting the current results

Borrowings at amortised cost

R million	Reference	December 2018	June 2018
Bank borrowings and listed debt		11 030	9 050
– United Kingdom borrowings	i	1 644	1 810
– South African borrowings	ii	9 386	7 240
Redeemable preference shares	iii	–	1 402
Finance lease liability		3 649	3 621
– New head office building		3 288	3 237
– General		361	384
Bank overdraft		–	6
Total borrowings at amortised cost		14 679	14 079

i. United Kingdom borrowings

Discovery previously entered into term facilities totalling GBP 150 million. These borrowings have been used to fund the new business acquisition costs incurred by VitalityLife, which were previously funded by The Prudential Assurance Company Limited (Prudential).

Discovery repaid GBP 50 million of this facility in previous financial periods and a further voluntary prepayment of GBP 10 million on 30 November 2018. The balance owing at 31 December 2018 amounts to GBP 90 million (R1 644 million) (30 June 2018: GBP 99.7 million (R1 810 million)).

Interest rates on these facilities are floating, linked to 3 month LIBOR, payable quarterly in arrears. Finance costs of R21 million (2017: R21 million) in respect of these borrowings have been recognised in profit or loss.

ii. South African borrowings

R million	Reference	December 2018	June 2018
Balance at beginning of the period		7 240	4 600
Issuance of listed debt	a.	700	1 500
Draw down on new facility	b.	1 433	1 154
Repayment of borrowings		(41)	(80)
Accrued interest		58	77
Raising fees capitalised		(4)	(11)
Balance at end of the period		9 386	7 240

Moody's reaffirmed a Aa3.za issuer rating to Discovery Limited on 29 January 2019.

- a. During the previous financial period, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery issued R1.5 billion JSE Listed Notes in its inaugural issuance on 21 November 2017. As previously reported in August 2018, Discovery issued further Floating Rate Notes of R700 million, with a coupon interest rate of 10.29% per annum, fixed through an interest rate swap. Interest is payable quarterly in arrears and capital is payable in full at maturity on 21 August 2026.
- b. Discovery Central Services Proprietary Limited, a subsidiary of the Discovery Group, entered into a new unsecured R1.4 billion 5 year loan facility in December 2018, as part of a broader debt refinancing programme (refer iii below). Interest on this facility has been fixed at 10.60% per annum. Interest is payable quarterly in arrears and capital is repayable in full at maturity on 20 December 2023.

Finance costs of R378 million (31 December 2017: R232 million) in respect of South African borrowings have been recognised in profit or loss.

iii. Redeemable preference shares

In 2016 Discovery Pref Holding Company (RF) Limited, a subsidiary of the Discovery Group, issued 1 400 A preference shares at an issue price of R1 million each, as part of a debt syndication programme. The preference shares were issued at a fixed coupon rate of 8.225% per annum, paid bi-annually, redeemable on 29 June 2021. As part of a broader debt refinancing programme (referred to in b above), these preference shares were voluntarily redeemed on 20 December 2018, at nominal value. A breakage fee of R33 million was payable and has been accounted for in finance costs. For the calculation of normalised headline earnings, this cost has been added back.

Finance costs of R58 million (31 December 2017: R58 million) in respect of the redeemable preference shares have been recognised in profit or loss.

REVIEW OF GROUP RESULTS continued

for the six months ended 31 December 2018

Banking

Consistent with Discovery's communication in its annual results for June 2018, the total combined acquisition price payable by Discovery to the FirstRand Group was R1.8 billion. The concluded transaction included:

- the acquisition of the remaining interest of FirstRand Investment Holdings Limited (FRIHL) in Discovery Bank.
- acquiring the remaining 25.01% economic interest that FirstRand owned in the Discovery Card joint venture.
- Discovery Bank acquiring all rights to the Discovery card book and related assets which will be migrated commencing in 2019.

The transaction received approval from the respective regulatory authorities including the Prudential Authority and the Competition Authorities. The accounting treatment of these transactions and the impact on the Statement of financial position is summarised below:

R million	Reference	December 2018 Increase/ (decrease) in assets/ equity
Intangible assets	i	(1 145)
Prepayments included in Loans and receivables	i	1 898
Retained earnings	ii	(1 104)
Ordinary share capital and share premium	iii	1 837

i. DiscoveryCard profit share

Discovery Bank acquired the remaining 25.01% interest in the DiscoveryCard joint venture business from FirstRand. *IFRS 3: Business Combinations* requires an entity to perform business acquisition accounting from the date on which it obtains control. Any cash flows prior to the date of control are reflected as a prepayment.

In terms of *IFRS 10: Consolidated Financial Statements*, an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Based on Discovery's assessment of the relevant activities that affect the returns of the business acquired, transfer of control for accounting purposes will only arise in the next reporting period.

Discovery Bank also acquired the 54.99% DiscoveryCard profit share from another subsidiary within the Group. This intergroup transaction resulted in a reclassification through a decrease of intangible assets and a corresponding increase in prepayments in contemplation of a business combination.

ii. Acquisition of FRIHL share of Discovery Bank

Discovery has acquired the remaining interest in Discovery Bank from FRIHL, being the non-controlling interest. The transaction resulted in Discovery wholly owning Discovery Bank. The transaction has resulted in a change of ownership without a change in control.

In terms of IFRS, no additional goodwill can be recognised to reflect subsequent purchases of additional shares in a subsidiary where there is no change in control. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid, is recorded in the statement of changes in equity as a transaction between equity holders in accordance with the requirements of IFRS 10.

iii. Funding of acquisition

The total combined acquisition price payable by Discovery to the FirstRand Group was R1.8 billion. Since this acquisition constitutes a new initiative and presents an important opportunity for the Group, the Board decided that this acquisition should be funded by way of an equity issuance limited to the purchase price.

Discovery raised capital by way of a vendor consideration placement as contemplated in the JSE Listings Requirements and allowed for in its Memorandum of Incorporation. This resulted in an increase in capital of R1.85 billion. Costs of R17 million were incurred in respect of the vendor consideration placement and have been written-off against share premium. Shares in issue have increased by 11 445 744 shares (9 963 483 shares on 12 November 2018 and 1 482 261 shares on 29 November 2018) to 658 290 736 shares.

Consolidation of Discovery Unit Trusts

The Discovery Unit Trusts are consolidated into Discovery's results for accounting purposes, which results in the recognition of the underlying assets and liabilities of each of the funds.

Assets and liabilities of the Discovery Unit Trusts increased by R882 million respectively compared to 30 June 2018, with movements in the following line items on the Group's Statement of financial position:

- Investments at fair value through profit or loss (policyholder investments) increased by R266 million.
- Investment contracts at fair value through profit or loss increased by R270 million.
- Cash and cash equivalents increased by R392 million.
- Trade and other payables increased by R645 million.
- Other assets increased by R224 million.
- Other liabilities decreased by R33 million.

As these policies are linked, the consolidation of the Discovery Unit Trusts has no impact on the net asset value for shareholders.

There are significant trade volumes in the underlying funds of Discovery Unit Trusts. The cash flow impact of the movement in policyholder investments for the period is included in the following line items on the Group's Statement of cash flows:

- Purchase of investments held to back policyholder liabilities includes cash outflows of R3.3 billion.
- Proceeds from the disposal of investments held to back policyholder liabilities includes cash inflows of R2.3 billion.

Other significant items in these results

Discovery's new head office

Discovery entered into a 15 year lease agreement for its new head office, which comprises two phases of development. The lease commenced November 2017 and March 2018 for Phase I and Phase II respectively. Discovery started taking occupancy of the building at those dates, on a phased approach.

IAS 17: *Leases*, requires a lessee to classify a lease as either a finance lease or an operating lease, at the commencement of the lease term. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

In terms of the indicators provided in IAS17.10 and IAS17.11, Discovery has classified the lease as a finance lease given that the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. It should be noted that ownership of the building does not transfer at the end of the lease period but remains that of the landlord.

This accounting treatment has resulted in the recognition of an asset of R3 155 million which has been disclosed in 'Property and equipment' and a corresponding lease liability, which has been disclosed in 'Borrowings' in the Statement of financial position. The building is depreciated over the lease term, using the straight-line method. The table below summarises subsequent measurement:

	Six months ended December 2018	Six months ended December 2017 ¹	% change	Year ended June 2018
Finance costs recognised in profit or loss	(178)	(47)		(210)
Depreciation recognised in profit or loss	(105)	(28)		(126)
Market related rentals	141	28		128
	(142)	(47)	(200%)	(208)

¹ The comparative included only 2 months of charges as the initial recognition date was 1 November on Phase I. Phase II was only recognised in March 2018 and hence not included in the comparative number.

The treatment under IFRS 16: *Leases*, effective for annual periods beginning on or after 1 January 2019, would result in a similar treatment with the lease capitalised and as a result the accounting treatment in respect of this particular lease is aligned with future changes.

Normalised operating profit per the segmental information, reflects the cash rental costs separately from the IFRS finance lease treatment, as individual business expenses and margins are managed on underlying cash rental costs incurred by each business. The IFRS results reflect finance costs and depreciation as required by IAS 17.

This accounting treatment is not normalised in normalised headline earnings and has a significant impact during the initial and final stages of the lease. If normalised headline earnings were to be adjusted for the impact of the accounting treatment of the new head office lease, it would result in an increase of R102 million (2017: R47 million), net of tax, in normalised headline earnings to R2 478 million (2017: R2 876 million) (decrease of 14% compared to the prior financial year). This adjustment would be calculated by replacing the depreciation of R105 million and finance charges of R178 million recognised in line with IFRS, with the actual market related rentals of R141 million, and adjusting for tax.

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2017: 28%) in the financial statements. Where an entity is in an assessed loss position, a deferred tax asset is recognised to the extent that there will be future taxable profits against which assessed losses can be utilised.

Deferred tax

With the promulgation of the South African Insurance Act 18 of 2017, in January 2018, the new 'adjusted IFRS' tax basis is effective 1 July 2018. Deferred tax has been provided for on the difference between the IFRS and tax liabilities to the extent that timing differences arise.

Recent tax amendments for Life companies introduced a Risk Policy Fund for all new risk business written. In terms of the legislation that was effective 1 July 2016, Discovery Life elected to move existing risk business to this fund. As a result, a portion of the assessed loss of R15.7 billion (December 2017: R16.1 billion) in the Individual Policyholder Fund is expected to be utilised over time. A value of R491 million (December 2017: R702 million), implicit in the valuation of insurance contract liabilities have therefore been recognised as an explicit deferred tax asset in terms of IAS 12: *Income Taxes*. A corresponding liability has been recognised in 'Liabilities arising from insurance contracts'.

The impact on the Income statement for the current reporting period is a decrease in 'Net transfer to/from liabilities arising from insurance contracts' of R87 million and a corresponding increase in Income tax expense (2017: R140 million decrease in Income tax expense). This has no impact on profit after tax.

REVIEW OF GROUP RESULTS continued

for the six months ended 31 December 2018

Material transactions with related parties

Discovery Health Medical Scheme (DHMS)

Discovery Health administers DHMS and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R2 856 million for the six months ended 31 December 2018 (2017: R2 662 million). Discovery offers the members of DHMS access to the Vitality programme.

Equity issued to related parties

Pursuant to the approval granted by shareholders at the Company's annual general meeting, held on 26 November 2018, certain directors of Discovery including, A Gore, B Swartzberg and H Mayers, collectively subscribed for 1 482 261 shares as part of the vendor consideration placement, described earlier in this announcement.

Rand Merchant Insurance Holdings Limited (RMI) subscribed for 2 865 565 shares as part of the vendor consideration placement and maintained its 25.04% shareholding in Discovery Limited. RMI pre-agreed to participate in the share placement and earned an underwriting commission of R1 million.

Shareholder information

Directorate

Changes to the Board of Discovery Limited from 1 July 2018 to the date of this announcement are as follows:

- As previously reported, Mr JM Robertson has retired as executive director and Group Chief Information Officer from the Board of Discovery Limited with effect from 31 August 2018.
- Mr TT Mboweni has tendered his resignation as a non-executive director from the Board of the Company and various subsidiaries including Discovery Bank, following his appointment as the new Minister of Finance of the Republic of South Africa, with effect from 11 October 2018.
- Mr MI Hilkowitz, independent non-executive Chairperson and Director has informed the Board of his intention to retire, effective 28 February 2019. Mr Hilkowitz will continue to serve as non-executive Director on the Boards of certain of the Group's UK subsidiaries.
- Mr ME Tucker has been appointed as independent non-executive Chairperson and Director of the Board, with effect from 1 March 2019.

Dividend and capital

Final dividends paid

The following final dividends were paid during the current period:

- B preference share dividend of 501.91781 cents per share (401.53425 cents net of dividend withholding tax), paid on 17 September 2018.
- Ordinary share dividend of 114 cents per share (91.2 cents net of dividend withholding tax), paid on 8 October 2018.

Interim dividend declaration

B preference share cash dividend declaration:

On 14 February 2019, the directors declared an interim gross cash dividend of 506.71233 cents (405.36986 cents net of dividend withholding tax) per B preference share for the period 1 July 2018 to 31 December 2018, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued preference share capital at the declaration date is 8 million B preference shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 5 March 2019
Shares commence trading "ex" dividend	Wednesday, 6 March 2019
Record date	Friday, 8 March 2019
Payment date	Monday, 11 March 2019

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 6 March 2019 and Friday, 8 March 2019, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared an interim gross cash dividend of 101 cents (80.8 cents net of dividend withholding tax) per ordinary share, out of income reserves for the six month period ended 31 December 2018. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 658 290 736 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 12 March 2019
Shares commence trading "ex" dividend	Wednesday, 13 March 2019
Record date	Friday, 15 March 2019
Payment date	Monday, 18 March 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 13 March 2019 and Friday, 15 March 2019, both days inclusive.

Capital

For Group subsidiaries that operate in the insurance and financial services sectors, the relevant regulator specifies the minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities. The minimum required capital must be maintained at all times throughout the period.

With effect from 1 July 2018 a new insurance regulatory regime, namely Solvency Assessment and Management regulatory regime (SAM), was implemented in South Africa. Discovery Life and Discovery Insure are regulated under SAM, while Vitality Health and Vitality Life are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.

Material events after reporting date

Shareholders are referred to the announcement on 20 December 2018 advising that Cambridge Mobile Telematics ("CMT"), an equity-accounted investment of Discovery and strategic partner to Discovery Insure since 2014, announced a USD 500 million (R7.2 billion) investment from the SoftBank Vision Fund. The transaction was subject to U.S. regulatory approval which was still outstanding at 31 December 2018.

Upon the completion of the transaction, Discovery's effective shareholding in CMT will reduce to approximately 10% on a fully diluted basis. Discovery's profit from the transaction will be approximately USD 55 million (R780 million), a portion of which will be realised in cash. This will only be accounted for in the next reporting period. Discovery Insure's strategic partnership with CMT remains in place following the transaction.

This investment will accelerate the adoption of CMT's DriveWell platform, fueling product and market expansion across insurer and safety solutions.

Accounting policies

The interim results have been prepared in accordance with IFRS including *IAS 34: Interim Financial Reporting*, as well as the South African Companies Act 71 of 2008. The accounting policies adopted are consistent with the accounting policies applied in the prior Annual Financial Statements, except for the policies described below.

Discovery has adopted *IFRS 9: Financial Instruments* and *IFRS 15: Revenue from contracts with customers* from 1 July 2018. Other amendments and annual improvements to IFRS effective for 1 July 2018 have also been adopted but do not have an impact on Discovery's reported results. Discovery has elected to defer the hedging requirements under IFRS 9 in line with the provisions of the standard.

As permitted by the transitional provisions of both IFRS 9 and IFRS 15, Discovery has not restated prior year comparative financial statements. Retrospective adjustments arising from the application of these standards are not included in the financial statement balances at 30 June 2018, but have been adjusted to the opening balances at 1 July 2018. The notes below present the required transitional disclosures required to understand the changes arising from the adoption of IFRS 9 and IFRS 15.

New accounting standards

IFRS 9: Financial instruments

Classification

IFRS 9 introduces new requirements for the classification of financial assets based on the entity's business model for managing the financial asset and its contractual cash flow characteristics. An entity is still provided the option to designate a financial asset at initial recognition at fair value through profit or loss if doing so eliminates or reduces an accounting mismatch. No additional instruments have been designated or de-designated on transition.

Discovery's primary operations relate to long-term insurance and investment services, and as a result hold internal funds to match insurance and investment contract liabilities that are linked to the changes in fair value of these assets. These assets will continue to be designated and measured at fair value through profit and loss under IFRS 9.

Shareholder investments were previously classified as Available-for-sale under *IAS 39: Financial Instruments: Recognition and measurement*. This category no longer exists under IFRS 9. The business model for most of these investments is not to collect contractual cash flows, rather it is to maximise return for shareholders. Consequently, these investments have been classified as held at fair value through profit or loss. On transition, the balance on the Available-for-sale reserve in equity has been transferred to retained earnings. Prospectively, gains and losses on these investments will be recorded in profit or loss.

In certain cases balances classified as Available-for-sale under IAS 39 were being held to maturity, it was established that these assets are held in a business model whose objectives are achieved through collecting contractual cash flows and consequently transferred to the 'Investments at amortised cost' category. Discovery has not opted to classify any instruments at fair value through other comprehensive income (equity instruments), nor do any financial assets currently meet the business model required to be held at fair value through other comprehensive income (debt instruments).

Impairment

IFRS 9 introduces a new impairment model which will result in earlier recognition of losses based on the expected credit loss method. The impairment requirements relate to financial assets measured at amortised cost, contract assets and lease receivables. For Discovery, this relates to items disclosed on the Statement of financial position as 'Investments at amortised cost' and 'Loans and receivables (including insurance receivables)'. Discovery has assessed these balances for impairment and raised R83 million for expected credit losses on balances outstanding at 1 July 2018.

Financial liabilities

No changes were introduced by IFRS 9 for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss, unless the recognition would result in an accounting mismatch, in which case, the recognition of changes in own credit is recognised in profit or loss.

Discovery has investment contracts which have financial risk, and are consequently recognised and measured in terms of IFRS 9 rather than *IFRS 4: Insurance contracts*. These contracts are classified at fair value through profit and loss. The policies are linked to the return on underlying financial assets and are directly matched. The movement on Discovery's own credit risk is considered immaterial. The remaining financial liabilities are carried at amortised cost.

REVIEW OF GROUP RESULTS continued

for the six months ended 31 December 2018

IFRS 15: Revenue from contracts with customers

IFRS 15 establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer.

Discovery's revenue comprises primarily insurance premium revenue which is accounted for in terms of IFRS 4. For non-insurance revenue, Discovery has performed detailed assessments on underlying contractual arrangements with customers. This included detailed assessments in respect of fee income for investment

management services, fee income from administration business and vitality income. In most cases there is no impact on the timing or amount of revenue recognition.

A R6 million adjustment was processed to the opening balance of retained earnings for a change in the timing of revenue recognition on several contracts. This was not material to the Discovery Group. Discovery will continue to assess all new contracts entered into for appropriate application of IFRS 15. The disaggregation of revenue is disclosed in the segment report and in the income statement categories.

Effect of IFRS 9 and IFRS 15 on transition

R million	Group 30 June 2018 Previously reported Audited	IFRS 9 Adjustments	IFRS 15 Adjustments	Group 1 July 2018 Restated
Assets				
Deferred acquisition costs	1 150	-	(681)	469
Contract assets from customers	-	-	681	681
Financial assets				
- Available-for-sale investments	7 547	(7 547)	-	-
- Investments at fair value through profit or loss	71 246	6 147	-	77 393
Designated Held for trade	71 246 -			71 246 6 147
- Investments at amortised cost ¹	-	1 400	-	1 400
- Loans and receivables including insurance receivables	7 543	(83)	6	7 466
Equity				
Other reserves	1 280	(208)	-	1 072
Retained earnings	27 227	125	6	27 358
Liabilities				
Deferred revenue	324	-	(324)	-
Contract liabilities to customers	-	-	324	324

¹ Note that there are no changes in carrying amount arising from a changing measurement attribute on transition to IFRS 9. The fair value of the investments transferred to amortised cost approximated the amortised cost value, and hence no measurement adjustment was required on transition. The effective interest rate on these instruments was between 7.31% and 8.6% and interest income of R56 million was recognised in the current reporting period.

EMBEDDED VALUE STATEMENT

for the six months ended 31 December 2018

The embedded value of Discovery consists of the following components:

- the adjusted net worth attributed to the business at the valuation date;
- plus: the present value of expected future shareholder cash flows from the in-force covered business;
- less: the cost of required capital.

The present value of future shareholder cash flows from the in-force covered business is calculated as the value of projected future after-tax shareholder cash flows of the business in-force at the valuation date, discounted at the risk discount rate.

The required capital are the assets attributed to the covered business above the amount required to back covered business liabilities, whose distribution to shareholders is restricted as they are allocated to cover regulatory and internal capital requirements.

The value of new business is the present value, at the point of sale, of the projected future after-tax shareholder cash flows of the new business written by Discovery, discounted at the risk discount rate, less an allowance for the reserving strain, initial expenses and cost of required capital. The value of new business is calculated using the current reporting date assumptions.

For Discovery Life, the basis for preparing the regulatory balance sheet has changed from the Statutory Valuation Method ("SVM") to the Solvency Assessment and Management ("SAM") basis, with effect from 1 July 2018. As the regulatory balance sheet influences the timing of free cash flow emergence, it has necessitated a change in the embedded value methodology. As a consequence, negative reserves are no longer zeroised at a per policy level, which implies that policies with negative reserves can be used to match policies with positive reserves as well as the required capital where appropriate. This effectively results in a transfer of value from value of in-force to net worth.

In addition, a new tax basis came into effect for South African long term insurance companies on 1 July 2018, which requires the zeroisation of net policyholder liabilities at a tax fund level. The change has an impact on the timing of the tax payments, but not the overall level throughout the embedded value projection period.

The embedded value includes the insurance and administration profits of the covered business in the Discovery Limited group. Covered business includes business written in South Africa through Discovery Life ("Life"), Discovery Invest ("Invest"), Discovery Health ("Health") and Discovery Vitality ("Vitality"), and in the United Kingdom through VitalityLife and VitalityHealth. For Vitality Group, Ping An Health, MyOwn Health, Discovery Insure and VitalityInvest, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

In August 2011, Discovery raised R800 million through the issue of non-cumulative, non-participating, non-convertible preference shares. For embedded value purposes this capital, net of share issue expenses, has been excluded from the adjusted net worth.

The 31 December 2018 embedded value results and disclosures were not subjected to an external review or audit.

EMBEDDED VALUE STATEMENT continued

for the six months ended 31 December 2018

Table 1: Group embedded value

R million	31 December 2018	31 December 2017	% change	30 June 2018
Shareholders' funds	39 954	34 212	17	37 594
Adjustment to shareholders' funds from published basis ¹	(30 858)	(29 196)		(32 261)
Adjusted net worth ²	9 096	5 016		5 333
Value of in-force covered business before cost of required capital	61 668	57 691		62 702
Cost of required capital	(2 739)	(2 299)		(2 411)
Discovery Limited embedded value	68 025	60 408	13	65 624
Number of shares (millions)	656.6	645.0		645.1
Embedded value per share	R103.60	R93.66	11	R101.73
Diluted number of shares (millions)	657.6	646.2		646.2
Diluted embedded value per share ³	R103.44	R93.49	11	R101.56

1 A breakdown of the adjustment to shareholders' funds is shown in the table below. Note that where relevant, adjustments have been converted using the closing exchange rate of R18.33/GBP (June 2018: R18.16/GBP; December 2017: R16.65/GBP):

R million	31 December 2018	31 December 2017	30 June 2018
Life net assets under insurance contracts	(19 413)	(19 854)	(21 479)
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	(5 413)	(3 891)	(4 834)
VitalityHealth financial reinsurance asset	(2 127)	(1 568)	(1 898)
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	(371)	(254)	(331)
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	(27)	(26)	(27)
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	(2 268)	(2 060)	(2 247)
Intangible assets (net of deferred tax) in covered businesses	(811)	(839)	(874)
Net preference share capital	(779)	(779)	(779)
Reversal of 1 Discovery Place IAS 17 financial lease accounting	351	75	208
	(30 858)	(29 196)	(32 261)

2 The following table sets out the capital position of the covered businesses with the required capital on a consistent basis to that used in the embedded value:

R million	31 December 2018	31 December 2017	30 June 2018
Shareholders' funds	39 954	34 212	37 594
Adjustment to shareholders' funds	(30 858)	(29 196)	(32 261)
Adjusted net worth	9 096	5 016	5 333
Excess of available capital over adjusted net worth	25 291	4 292	5 411
Available capital	34 387	9 308	10 744
Required capital	27 944	7 498	8 915
Excess available capital	6 443	1 810	1 829

The excess of available capital over adjusted net worth reflects the difference between the adjusted net worth and the available capital. This includes:

- The net preference share capital of R779 million which is included as available capital.
- The difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth and adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.

The required capital at December 2018 for Life is R19 673 million (June 2018: R1 732 million; December 2017: R1 584 million), for Health and Vitality is R886 million (June 2018: R840 million; December 2017: R778 million), for VitalityHealth is R2 240 million (June 2018: R2 133 million; December 2017: R1 899 million) and for VitalityLife is R5 145 million (June 2018: R4 210 million; December 2017: R3 237 million). For Life, the required capital was set equal to management's internal view of the capital required, which is based on a multiple of the estimated regulatory capital requirements. For Health and Vitality, the required capital was set equal to two times the monthly renewal expense and Vitality benefit cost. For VitalityHealth, the required capital amount was set equal to 1.35 times the Solvency II Pillar 1 Solvency Capital Requirement. For the VitalityLife business on the Prudential licence, the required capital was set equal to the UK Solvency I long term insurance capital requirement as per the agreement with Prudential. For the business sold on the Vitality Life Limited licence, the required capital was set equal to the excess of 1.4 times the Solvency II Pillar 1 Solvency Capital Requirement.

3 The diluted embedded value per share allows for Discovery's BEE transaction where the impact is dilutive i.e. where the current embedded value per share exceeds the current transaction value.

Table 2: Value of in-force covered business

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 31 December 2018			
Health and Vitality	21 274	(391)	20 883
Life and Invest ¹	25 834	(1 091)	24 743
VitalityHealth ²	7 443	(353)	7 090
VitalityLife ²	7 117	(904)	6 213
Total	61 668	(2 739)	58 929
at 31 December 2017			
Health and Vitality	19 246	(358)	18 888
Life and Invest ¹	27 358	(843)	26 515
VitalityHealth ²	5 849	(288)	5 561
VitalityLife ²	5 238	(810)	4 428
Total	57 691	(2 299)	55 392
at 30 June 2018			
Health and Vitality	21 046	(380)	20 666
Life and Invest ¹	28 066	(909)	27 157
VitalityHealth ²	7 057	(336)	6 721
VitalityLife ²	6 533	(786)	5 747
Total	62 702	(2 411)	60 291

¹ Included in the Life and Invest value of in-force covered business is R1 303 million (June 2018: R1 317 million; December 2017: R1 272 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.

² The value of in-force has been converted using the closing exchange rate of R18.33/GBP (June 2018: R18.16/GBP; December 2017: R16.65/GBP).

Table 3: Group embedded value earnings

R million	Six months ended		Year ended
	31 December 2018	31 December 2017	30 June 2018
Embedded value at end of period	68 025	60 408	65 624
Less: Embedded value at beginning of period	(65 624)	(57 294)	(57 294)
Increase in embedded value	2 401	3 114	8 330
Net change in capital ¹	(1 840)	-	(2)
Dividends paid	776	673	1 367
Transfer to hedging reserve	27	(168)	3
Employee share option schemes	(7)	(5)	(13)
Change in ownership ²	1 104	-	-
IFRS transitional arrangements ³	77	-	-
Embedded value earnings	2 538	3 614	9 685
Annualised return on opening embedded value	7.9%	13.0%	16.9%

¹ The net change in capital reflects share issues (net of costs) and an increase (decrease) in treasury shares in the period.

² The change in ownership reflects the acquisition of the remaining 48.87% interest in Discovery Bank from FRIHL, being the non-controlling interest.

³ The IFRS transitional arrangements reflects the retrospective adjustments arising from the adoption of IFRS 9 and IFRS 15 to the opening balances at 1 July 2018.

EMBEDDED VALUE STATEMENT continued

for the six months ended 31 December 2018

Table 4: Components of Group embedded value earnings

R million	Six months ended 31 December 2018			Six months ended	Year ended	
	Net worth	Cost of required capital	Value of in-force covered business	31 December 2017	30 June 2018	
Total profit from new business (at point of sale)	(2 462)	(145)	3 907	1 300	1 275	2 826
Profit from existing business						
■ Expected return	3 205	(62)	(285)	2 858	2 886	5 955
■ Change in methodology and assumptions ¹	4 182	(99)	(4 415)	(332)	292	787
■ Experience variances	(271)	(11)	(373)	(655)	140	305
Impairment, amortisation and fair value adjustment ²	(31)	-	-	(31)	(28)	(54)
Increase in goodwill and intangibles	(113)	-	-	(113)	(84)	(246)
Other initiative costs ³	(291)	-	3	(288)	(236)	(285)
Non-recurring expenses ⁴	(102)	-	-	(102)	(15)	(30)
Acquisition costs ⁵	(21)	-	(1)	(22)	(27)	(122)
Finance costs	(494)	-	-	(494)	(385)	(714)
Foreign exchange rate movements	69	(11)	131	189	(357)	1 016
Other ⁶	58	-	(1)	57	(25)	(15)
Return on shareholders' funds ⁷	171	-	-	171	178	262
Embedded value earnings	3 900	(328)	(1 034)	2 538	3 614	9 685

1 The changes in methodology and assumptions will vary over time to reflect adjustments to the model and assumptions as a result of changes to the operating and economic environment. The current period's changes are described in detail in Table 6 below (for previous periods refer to previous embedded value statements).

2 This item reflects the amortisation of the intangible assets reflecting the banking costs, the PrimeMed acquisition and capital expenditure in VitalityInvest.

3 This item includes costs of start-up businesses and expenses incurred to investigate new products and markets. Start-up costs include costs in relation to the Discovery Bank, VitalityInvest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Invest. Head office costs which relate to non-covered business are also included in this item.

4 This item includes once-off costs relating to fees payable by Health and once-off sponsorship costs and development costs in VitalityLife.

5 Acquisition costs relate to commission paid on the VitalityLife and Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are not deducted from the value of new business.

6 This item includes, among other items, the tax benefits or losses that will emerge as the VitalityHealth DAC and intangible software assets amortise or increase.

7 The return on shareholders' funds is shown net of tax and management charges.

Table 5: Experience variances

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Renewal expenses	18	-	21	(6)	(2)	-	11	-	42
Lapses and surrenders	17	(44)	22	(68)	-	123	(123)	44	(29)
Mortality and morbidity ¹	-	-	(235)	42	94	-	11	-	(88)
Policy alterations	-	(12)	(268)	263	-	-	(10)	(36)	(63)
Premium and fee income ²	(1)	(207)	(8)	(229)	-	-	(14)	(14)	(473)
Economic assumptions	-	-	38	(495)	-	-	-	-	(457)
Commission	-	-	-	-	(33)	-	-	-	(33)
Tax ³	30	-	51	(91)	84	-	6	3	83
Reinsurance	-	-	-	-	(19)	-	(20)	24	(15)
Maintain modelling term ⁴	-	168	-	87	-	25	-	-	280
Vitality benefits	3	-	-	-	-	-	-	-	3
Other	84	-	(50)	47	(4)	-	26	(8)	95
Total	151	(95)	(429)	(450)	120	148	(113)	13	(655)

- 1 The mortality and morbidity experience for Life and Invest reflects a period of volatility in mortality claims, as a result of a small number of large claims observed in the period.
- 2 The premium and fee income experience for Health and Vitality reflects the impact on administration and managed care fees due to the in-period inflation being lower than that assumed. For Life, the experience arises largely due to the impact of Vitality status distribution shifts compared to expected levels.
- 3 The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.
- 4 The projection term for Health and Vitality, Life and VitalityHealth at 31 December 2018 has not been changed from that used in the 30 June 2018 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by six months.

Table 6: Methodology and assumption changes

R million	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		Total
	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	
Modelling changes ¹	-	-	3 410	(2 154)	-	18	9	7	1 290
Expenses	-	-	1	14	-	-	-	-	15
Lapses	-	-	-	-	-	-	-	-	-
Mortality and morbidity	-	-	-	-	-	-	-	-	-
Benefit enhancements	-	-	(3)	(6)	-	-	-	-	(9)
Vitality benefits	-	-	-	-	-	-	-	-	-
Tax ²	-	-	-	(765)	-	-	-	-	(765)
Economic assumptions ³	-	(373)	(5)	(534)	-	-	1	-	(911)
Premium and fee income	-	-	-	-	-	-	-	-	-
Reinsurance ⁴	-	-	695	(662)	-	17	-	-	50
Other ⁵	-	-	(1)	(1)	-	-	75	(75)	(2)
Total	-	(373)	4 097	(4 108)	-	35	85	(68)	(332)

- 1 For Life and Invest, the modelling change item relates to methodology changes associated with the implementation of SAM.
- 2 For Invest, the tax item reflects the impact of the change to the new adjusted IFRS tax basis.
- 3 For Life, Invest, Health and Vitality the economic assumptions item relates to the impact of updating the assumptions relative to the publicly available Prudential Authority nominal and real yield risk-free curves at 31 December 2018.
- 4 For Life, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.
- 5 For VitalityLife, the other item relates to the margin reset to offset acquisition costs and assumption and methodology changes, as per the accounting policy, and an alignment of the compulsory margins in VitalityLife to those used by Life.

EMBEDDED VALUE STATEMENT continued

for the six months ended 31 December 2018

Table 7: Embedded value of new business

R million	Six months ended		% change	Year ended
	31 December 2018	31 December 2017		30 June 2018
Health and Vitality				
Present value of future profits from new business (at point of sale)	428	402		985
Cost of required capital	(14)	(14)		(29)
Present value of future profits from new business (at point of sale) after cost of required capital	414	388	7	956
New business annualised premium income ¹	1 668	1 781	(6)	4 086
Life and Invest				
Present value of future profits from new business (at point of sale) ²	668	716		1 376
Cost of required capital	(41)	(37)		(74)
Present value of future profits from new business (at point of sale) after cost of required capital	627	679	(8)	1 302
New business annualised premium income ³	1 546	1 382	12	2 773
Annualised profit margin ⁴	4.8%	6.1%		5.6%
Annualised profit margin excluding Invest business	10.7%	11.5%		10.7%
VitalityHealth⁵				
Present value of future profits from new business (at point of sale)	119	12		263
Cost of required capital	(26)	(23)		(44)
Present value of future profits from new business (at point of sale) after cost of required capital	93	(11)	945	219
New business annualised premium income (Rand) ⁶	606	492	23	1 161
Annualised profit margin ⁴	2.5%	(0.3)%		3.1%
VitalityLife⁷				
Present value of future profits from new business (at point of sale)	230	247		407
Cost of required capital	(64)	(28)		(58)
Present value of future profits from new business (at point of sale) after cost of required capital	166	219	(24)	349
New business annualised premium income (Rand)	503	443	13	898
Annualised profit margin ⁴	4.3%	6.7%		5.4%

¹ Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 31 December 2018.

The total Health and Vitality new business annualised premium income written over the period was R3 500 million (June 2018: R6 735 million; December 2017: R3 402 million).

² Included in the Life and Invest embedded value of new business is R43 million (June 2018: R110 million; December 2017: R49 million) in respect of investment management services provided on off balance sheet investment business.

Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

³ Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.

The new business annualised premium income of R1 546 million (June 2018: R2 773 million; December 2017: R1 382 million) (single premium APE: R699 million (June 2018: R1 195 million; December 2017: R559 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R704 million (June 2018: R1 254 million; December 2017: R638 million) and servicing increases of R349 million (June 2018: R615 million; December 2017: R316 million), was R2 599 million (June 2018: R4 642 million; December 2017: R2 337 million) (single premium APE: R725 million (June 2018: R1 248 million; December 2017: R588 million)). Single premium business is included at 10% of the value of the single premium.

Policy alterations and internal replacement policies, including Discovery Retirement Optimisers added to existing Life Plans, are shown in Table 5 as experience variances and not included as new business. Term extensions on existing contracts are not included as new business.

⁴ The annualised profit margin is the value of new business expressed as a percentage of the present value of future premiums.

⁵ The VitalityHealth value of new business is calculated as the value at point of sale of the new business written premium in-force at the valuation date multiplied by the Margin multiplied by the Annuity Factor less the new business cash flows from point of sale to the valuation date. The assumptions for the Margin and Annuity Factor are shown in Table 8.

⁶ VitalityHealth new business is defined as individuals and employer groups which inception during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 31 December 2018.

⁷ VitalityLife new business is defined as policies to which VitalityLife became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.

BASIS OF PREPARATION

Table 8: Embedded value economic assumptions

	31 December 2018	31 December 2017	30 June 2018
Beta coefficient	0.75	0.75	0.75
Equity risk premium (%)	3.5	3.5	3.5
Risk discount rate (%)			
Health and Vitality ¹	12.375	11.875	12.155
Life and Invest ¹	13.125	12.625	12.875
VitalityHealth	4.02	3.91	4.02
VitalityLife	4.725	4.635	4.725
Rand/GB Pound exchange rate			
Closing	18.33	16.65	18.16
Average	18.27	17.67	17.33
Margin over Expense inflation to derive Medical inflation (%)			
South Africa	3.00	3.00	3.00
Expense inflation (%)			
South Africa ² – Health and Vitality	6.84	6.00	6.91
– Life and Invest	7.49	6.00	7.48
United Kingdom	3.00	3.27	3.00
Pre-tax investment return (%)			
South Africa – Cash ¹	9.00	8.50	8.75
– Life and Invest bonds ³	10.50	10.00	10.25
– Health and Vitality bonds ³	9.75	9.25	9.53
– Equity ¹	14.00	13.50	13.75
United Kingdom – VitalityHealth investment return	1.40	1.29	1.40
– VitalityLife investment return	2.50	2.01	2.50
Income tax rate (%)			
South Africa	28	28	28
United Kingdom – long term ⁴	17	17	17
VitalityHealth Assumptions			
– Margin (net of tax and cost of capital) (%)	14.1	–	14.1
– Annuity Factor	6.00	–	6.00
Projection term			
– Health and Vitality	20 years	20 years	20 years
– Discovery Life – ViF	40 years	No cap	40 years
– Group Life	10 years	10 years	10 years
– VitalityLife	No cap	No cap	No cap
– VitalityHealth ⁵	20 years	20 years	20 years

¹ Derived as a margin over (or below for cash) the respective pre-tax investment return for bonds.

² The inflation assumption is derived as the difference between the nominal and real yield curve at each duration. As an indication, the cash flow weighted average inflation is shown in the table.

³ As indications, the cash flow weighted averages derived from the relevant yield curve(s) are shown.

⁴ The United Kingdom Corporation tax rate assumed is 19% in 2018 to 2020, and 17% beyond that.

⁵ The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.

EMBEDDED VALUE STATEMENT continued

for the six months ended 31 December 2018

The Discovery Limited embedded value is calculated based on a risk discount rate using the CAPM approach with specific reference to the Discovery beta coefficient. The assumed beta is fixed at 0.75. This has been set such that the risk discount rate proxies the result of a Weighted Average Cost of Capital approach with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The observed beta is calculated with reference to the ALSI. The assumed beta will only change if the capital structure of the Group and/or the observed beta calculated using daily returns over a long time period suggest the beta assumption should depart significantly from the assumption at the financial year end. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly.

Life and Invest mortality, morbidity and lapse and surrender assumptions were derived from internal experience, where available, augmented by reinsurance and industry information.

The Health and Vitality lapse assumptions were derived from the results of recent experience investigations.

The VitalityHealth assumptions were derived from internal experience.

VitalityLife assumptions were derived from internal experience, where available, augmented by reinsurance, industry and Discovery Limited group information.

Renewal expense assumptions were based on the results of the latest expense and budget information.

The initial expenses included in the calculation of the embedded value of new business are the actual costs incurred excluding expenses of an exceptional or non-recurring nature.

From 30 June 2018, the South African investment return assumptions for Life, Invest, Health and Vitality were based on the publically available Prudential Authority risk-free nominal yield curve. The real yield assumption was set based on the publically available Prudential Authority risk-free real yield curve, adjusted to remove volatility due to the nature of the index linked government bond market. Other economic assumptions were set relative to these two yield curves. The 31 December 2017 investment return assumptions, and other related economic assumptions, were based on a single interest rate derived from the risk-free zero coupon government bond yield curve.

The current and projected tax position of the policyholder funds within the Life company has been taken into account in determining the net investment return assumption.

The best estimate investment return assumption for VitalityHealth was based on the single interest rate derived from the risk-free zero coupon sterling yield curve.

From 30 June 2018, VitalityHealth calculate the value in-force at the valuation date as the in-force written premium multiplied by the Margin multiplied by the Annuity Factor, as set out in the table above. The Annuity Factor assumption is derived from assumed future lapse rates and premium increases. The Margin assumption reflects profit margins after tax and Cost of Capital. The assumptions underlying the Annuity Factor and Margin are set taking into account the current experience in the business at different durations.

VitalityLife adopts a passive approach for setting economic assumptions. The nominal investment return and real return rate are fixed unless market conditions depart significantly from the assumptions at the financial year end. Other economic assumptions were set relative to these two passive yields.

The cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return on tangible assets. Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. The Life and Invest cost of required capital is calculated assuming shareholder cash flow is limited to the cash flow available after having met both the required capital amount and an internally defined liquidity target capital requirement of tangible assets.

The embedded value has been calculated in accordance with the Actuarial Society of South Africa's Advisory Practice Note ("APN") 107: Embedded Value Reporting, except the recommended disclosure of Free Surplus and Required Capital has been adjusted to take into account the nature of the capital requirements in the covered business, as can be seen in Table 1 note 2.

EMBEDDED VALUE STATEMENT continued

for the six months ended 31 December 2018

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 31 December 2018 to changes in the risk discount rate is included in the tables below.

For each sensitivity illustrated below, all other assumptions have been left unchanged. No allowance has been made for management action such as risk premium increases where future experience is worse than the base assumptions.

Table 9: Embedded value sensitivity

R million	Adjusted net worth ²	Health and Vitality	
		Value of in-force	Cost of required capital
Base	9 096	21 274	(391)
Impact of:			
Risk discount rate +1%	9 096	20 019	(424)
Risk discount rate -1%	9 096	22 667	(352)
Lapses -10%	8 948	22 004	(410)
Interest rates -1% ¹	8 048	21 400	(375)
Equity and property market value -10%	9 074	21 274	(391)
Equity and property return +1%	9 096	21 274	(391)
Renewal expenses -10%	9 176	23 344	(362)
Mortality and morbidity -5%	9 288	21 274	(391)
Projection term +1 year	9 096	21 598	(396)

¹ All economic assumptions were reduced by 1%.

² The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

The following table shows the effect of using different assumptions on the embedded value of new business.

Table 10: Value of new business sensitivity

R million	Health and Vitality	
	Value of new business	Cost of required capital
Base	428	(14)
Impact of:		
Risk discount rate +1%	392	(15)
Risk discount rate -1%	468	(13)
Lapses -10%	454	(15)
Interest rates -1% ¹	434	(14)
Equity and property return +1%	428	(14)
Renewal expense -10%	488	(13)
Mortality and morbidity -5%	428	(14)
Projection term +1 year	437	(14)
Acquisition costs -10%	441	(14)

¹ All economic assumptions were reduced by 1%.

Life and Invest		VitalityHealth		VitalityLife		Embedded value	% change
Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital		
25 834	(1 091)	7 443	(353)	7 117	(904)	68 025	
23 376	(1 058)	7 069	(335)	6 698	(1 079)	63 362	(7)
28 762	(1 129)	7 857	(372)	7 603	(657)	73 475	8
28 081	(1 167)	8 374	(396)	7 587	(1 021)	72 000	6
26 499	(1 177)	7 741	(372)	7 216	(1 390)	67 590	(1)
25 476	(1 120)	7 443	(353)	7 117	(904)	67 616	(1)
26 115	(1 087)	7 443	(353)	7 117	(904)	68 310	-
26 243	(1 058)	8 038	(353)	7 199	(868)	71 359	5
27 677	(956)	8 598	(353)	7 249	(875)	71 511	5
25 911	(1 091)	7 492	(355)	7 117	(904)	68 468	1

Life and Invest		VitalityHealth		VitalityLife		Value of new business	% change
Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital		
668	(41)	119	(26)	230	(64)	1 300	
527	(40)	87	(24)	168	(73)	1 022	(21)
835	(43)	153	(27)	299	(49)	1 623	25
816	(44)	182	(29)	315	(76)	1 603	23
710	(44)	145	(27)	240	(123)	1 321	2
683	(41)	119	(26)	230	(64)	1 315	1
690	(40)	160	(26)	242	(56)	1 445	11
733	(36)	198	(26)	250	(57)	1 476	14
669	(41)	122	(26)	230	(64)	1 313	1
739	(41)	135	(26)	261	(64)	1 431	10

Transfer secretaries Computershare Investor Services Pty Limited
(Registration number: 2004/003647/07)
Rosebank Towers, 15 Biermann Avenue, Rosebank 2196
PO Box 61051, Marshalltown 2107

Sponsors Rand Merchant Bank (A division of FirstRand Bank Limited)

Secretary and registered office MJ Botha, Discovery Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1999/007789/06)
Company tax reference number: 9652/003/71/7

JSE share code: DSY ISIN: ZAE000022331
JSE share code: DSBP ISIN: ZAE000158564
JSE bond code: DSY01 ISIN: ZAG000148362
JSE bond code: DSY02 ISIN: ZAG000148347
JSE bond code: DSY03 ISIN: ZAG000148354
JSE bond code: DSY04 ISIN: ZAG000153271

1 Discovery Place, Sandton 2146 PO Box 786722, Sandton 2146
Tel: (011) 529 2888 Fax: (011) 539 8003

Directors MI Hilkowitz (Chairperson)¹, ME Tucker (UK) (Chairperson)², A Gore* (Chief Executive Officer), HL Bosman, Dr BA Brink, SE de Bruyn, R Enslin (USA), R Farber, HD Kallner*, F Khanyile, NS Koopowitz*, Dr TV Maphai, HP Mayers*, TT Mboweni³, Dr A Ntsaluba*, AL Owen (UK), A Pollard*, JM Robertson⁴, B Swartzberg*, DM Viljoen* (Financial Director), SV Zilwa

* *Executive.*

¹ *Retired effective 28 February 2019.*

² *Appointed effective 1 March 2019.*

³ *Resigned effective 11 October 2018.*

⁴ *Retired 31 August 2018.*

Interim financial results

– prepared by L van Jaarsveldt CA(SA) and A Nel CA(SA)
– supervised by DM Viljoen CA(SA)

Embedded value statement

– prepared by M Curtis FASSA, FIA and P Bolink FASSA
– supervised by A Rayner FASSA, FIA

Discovery



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Discovery is an authorised financial services provider.