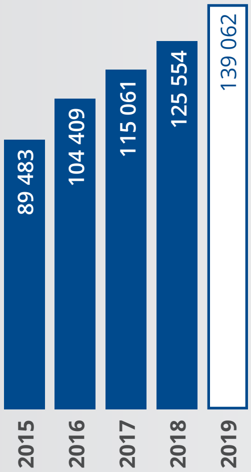
Discovery

DISCOVERY
AUDITED RESULTS
AND CASH DIVIDEND DECLARATION
for the year ended 30 June 2019

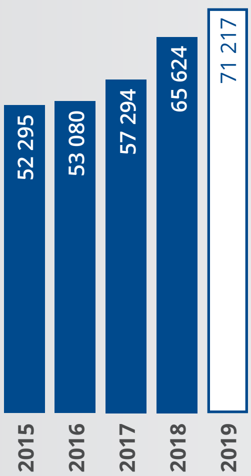
RESULTS AND COMMENTARY

Gross inflows under management
(R million)



Core new business API
(R million)

Embedded value
(R million)



21%
of **Group earnings** invested in new initiatives

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

Commentary

FINANCIAL PERFORMANCE

For its 2019 financial year, Discovery planned to increase investment into strategic initiatives significantly, most notably the build and launch of Discovery Bank, creating an expected reduction in Group earnings[1].

For the first six months to 31 December 2018, this planned increased investment together with an unexpected spike in large mortality claims within Discovery Life resulted in a substantial reduction in normalised headline earnings per share. Various actions were taken to address the large-claims volatility, which ameliorated in the second half of the year.

For the financial year ended 30 June 2019, Discovery's normalised profit from operations decreased by 3% to R7 747 million, headline earnings decreased by 11% to R5 147 million and normalised headline earnings decreased by 7% to R5 035 million. Spend on new initiatives increased by 114% to R1 311 million over the period – 21% of Group earnings (including 3% of associated financing costs) – in line with budget and fully provided for in the capital plan. New business annualised premium income (API)[2] increased by 13% to R18 299 million, while Embedded Value grew by 9% on an annualised basis to R71 217 million.

Normalised headline earnings per share (undiluted) decreased by 8% to 771.9 cents and headline earnings per share (undiluted)[3] decreased by 12% to 789.0 cents.

STRATEGIC OBSERVATIONS

The period under review was one of considerable complexity and the Group's business and operating model ensured a resilient performance in this context. The strategy over the period reflected the complex environment, and can be distilled into three distinct features:

Focus on growth and prudence:

The disciplined operating model dictates growth through each business phase, while ensuring that cash reserves are robust and that the Group is well capitalised. Guided by this model, there was a focus on organic growth and prudence over the period. In addition to the 21% of Group earnings spent on new initiatives, the Group's financial leverage ratio improved to 23.3% and the cash buffer increased to R4.4 billion. Further, the Group strengthened its operating model over the period to include additional prudent constraints to manage the quality and diversity of cash flow.

Disciplined organic growth strategy:

The Group follows a disciplined organic growth strategy guided by the organic growth engine, whereby operating profit growth of CPI +10% is targeted through a methodical and substantial investment in new initiatives, which evolve into emerging businesses, and ultimately scale into established businesses.

Businesses in each phase of the growth engine are tracking well:

i. **Established businesses** increased operating profit by 3%. Performance was robust, although impacted by the spike in Discovery Life claims, and business fundamentals continued to be strong.

ii. **Emerging businesses** are scaling satisfactorily and performed excellently over the period, achieving operating profit growth of 94% to R422 million.

iii. **New businesses** operated largely within budget, and are gaining traction. The most notable of these was Discovery Bank, which launched for beta testing in November 2018 with a public rollout in June 2019. Other important new businesses include VitalityInvest (UK), Vitality1 (the global Vitality technology platform), Umbrella Funds (SA) and Discovery Business Insurance (SA).

Evolving the business model and applying it to four focused areas:

Over the period, the science underpinning the behavioural composite model was deepened. A few behaviours explain the majority of the underlying risk across financial services and these behaviours are correlated. Informed by this science, the composite model consists of a number of different businesses, where each industry silo (health, life and motor insurance, savings and more recently banking), leverages the same behavioural platform, Vitality. The result is a compelling value proposition for customers, competitive advantage, a powerful customer platform, and strong behaviour change.

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.* This strategy involves being more deliberate in pursuing composites and manifests in the following focus areas in each market:

i. **South Africa** – a disruptive composite model, with businesses which are market leaders, and a laboratory for Shared-Value in financial services, as well as a successful entry into banking

ii. **United Kingdom** – a differentiated offering through a composite Vitality Shared-Value Insurance model

iii. **Vitality Group** – a sophisticated global behavioural platform linked to financial services

iv. **Ping An Health** – the leading health insurer in China with over 50 million clients

SOUTH AFRICA

Discovery Health

Discovery Health (DH) continued to perform excellently over the period. Normalised operating profit increased by 10% to R3 044 million, and new business API (excluding Vitality and the take-on of new closed medical schemes) grew by 1% to R6 640 million, a reflection of the challenging economic environment. Lives under management exceeded 3.5 million.

1 *Normalised profit from operations.*
2 *Excludes Discovery Health's take-on of new closed medical schemes and gross revenue for Vitality Group.*
3 *The percentage change in the current period is the same for both undiluted and diluted earnings per share.*

Discovery Health Medical Scheme (DHMS) delivered a strong performance, with a net surplus of R816 million (after investment income) and solvency of 27.3% for the Scheme's financial year ending 31 December 2018. The average contributions of DHMS are now 16.5% lower than those of the next eight largest competitors on a plan-by-plan basis, reflecting ongoing and effective claims risk management.

DH made significant progress in building out its value-based care and quality improvement programmes, as well as data science and artificial intelligence capabilities and systems. Supporting its strategy to become the lowest cost administrator in the market, DH continued its investment in digital technologies and process automation, with a considerable focus on using these assets to extract operational efficiencies and drive down costs. Critical to driving down costs, is ensuring that members' funds are protected from inappropriate use. In 2018, the DH fraud and forensics team saved DHMS R469 million, the equivalent of a 1% lower contribution increase.

The business made progress on its objective of becoming the country's leading provider of integrated healthcare solutions to corporate clients. DH now offers Primary Care, Gap Cover, Wellness assessments, the Healthy Company Employee Assistance Programme, wellness advisory and integrated reporting services. Many of these offerings are gaining traction with a total membership of 123 863 as at 30 June 2019.

DH supports the drive towards ensuring that all South Africans have access to quality health services based on need rather than affordability and is supportive of a National Health Insurance (NHI) system that assists in strengthening and improving the healthcare system for all South Africans. The publication of the NHI Bill creates an important opportunity for active collaboration between the Department of Health and the private healthcare sector, and Discovery intends to play a significant role in this collaboration. The Bill states that medical schemes will provide "complementary cover" to the NHI once it is "fully implemented". DH is seeking clarity on these aspects of the Bill. DH's strong view is that substantially limiting the role of medical schemes would be counterproductive to the NHI, because there are simply insufficient resources to meet the needs of all South Africans.

Limiting people from purchasing the medical scheme coverage they seek will seriously curtail the healthcare they expect and demand. This will erode sentiment, strip the country of skills, and impact the economy. Crucially, by preventing those who can afford it from using their medical scheme cover and forcing them into the NHI system is an approach that will also have the effect of increasing the burden on the NHI and will drain the very resources that must be used for people in most need. This would be detrimental to all South Africans, and would undermine the objectives of the NHI.

Discovery Life

Discovery Life (DL) continued to build on its market leadership position in the retail protection market during a complex period. Normalised operating profit reduced by 9% for the full year to R3 230 million, impacted by high-value mortality claims volatility in the first half of the year, which significantly improved in the second half. For the first half, this claims volatility resulted in a reduction in operating profit of 13%. Profits in the second half improved, growing by 15% compared to the first half, but remained under pressure due to the economic environment. Despite the declining market, new business API grew strongly by 6% to R2 312 million, with market share in the retail affluent sector growing to 31%. Key business metrics performed well; a significant improvement in mortality claims experience, combined with changes to reinsurance treaties implemented during H2, resulted in reduced claims volatility.

Over the period, there was a considerable focus on strengthening and refining the model, as well as the assumptions to better align with observed long-term experience. The business is well-positioned to capitalise on any improvement in economic operating conditions and to deliver against its long-term actuarial assumptions. The business also continued to pursue sustained growth through product innovation with a focus on premium affordability, high margins, as well as new integration opportunities. A proof point of this is the Bank Integrator, which offers immediate upfront discounts (up to 15% of the Life Plan premium), as well as underwriting-free supplementary cover at no additional premium. DL remains well capitalised with a Solvency Capital Requirement cover ratio of 158%, and generated net cash after tax and investment into new business of R4 072 million.

Discovery Invest

Discovery Invest's performance continued to be robust amid weak financial markets. Operating profit grew by 9% to R966 million, driven by a 12% increase in assets under administration to R91.6 billion. Over 80% of linked funds were placed in Discovery Linked and Guaranteed funds, resulting in a 15% increase in assets under management to R75 billion. Net inflows amounted to R8.4 billion over the period, an increase of 9%. Strong sales of guaranteed products and Discovery unit trusts drove new business growth including automatic contribution increases to R2 604 million, an increase of 6%.

Leveraging the Vitality Shared-Value Insurance model, Discovery Invest continued to innovate within the long-term savings market. The business introduced first-of-a-kind benefits to enhance the entire lump-sum retirement Shared-Value offering, as well as a new range of recurring contribution retirement products in March 2019. Proof points for the efficacy of the Shared-Value model continued to yield exemplary outcomes, with term to retirement increasing by 3.6 years; savings rates up 1.4 times; and income drawdowns decreasing by 13% over a four-year period.

Incorporating the Shared-Value offering, the Discovery Balanced Fund performed particularly well and was in the first performance quartile of its sector for three, five, and 10 years (Morningstar at 30 June 2019). The Discovery Collective Investment Scheme continued to perform well and was ranked as the fourth highest net retail flow taker (excluding money market and fund of funds) in the year to June by the Association for Savings and Investment South Africa. This ranking was primarily supported by the Discovery Balanced Fund, which attracted the second-highest net flows in the South African multi-asset, high equity sector.

Discovery Insure

Discovery Insure (DI) continued to grow strongly, achieving a full-year profit[4] of R155 million – 128% higher than the prior period. Gross Premium Income grew by 18% to R3.2 billion and new business API[4] reduced by 1% to R1 041 million (increased by 3% to R1 090 million including Discovery Business Insurance), a consequence of a strategic focus on quality. Notably over the period, 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 reduced Discovery's effective shareholding in CMT to approximately 10% on a fully diluted basis, and generated approximately R666 million after-tax profit (excluded from all normalised measures).

The performance was driven by the growing quality of business due to the continued success of the Vitality Shared-Value Insurance model and the increasing duration of the book. The quality of the in-force book is particularly excellent and generated R430 million in cash. The strategic focus on the quality of new business yielded positive results evidenced by over 85% of sales taking up Vitality drive at new business stage.

Discovery Business Insurance, DI's commercial insurance business, which provides insurance to small and medium enterprises, has been well received. The initial priority of the business was familiarising the market with the differentiated offering. The business is gaining traction and has a strong pipeline of new business.

The business continues to explore the opportunity to extend the model into international markets leveraging its partnership with CMT and the Global Vitality Network.

Discovery Bank

Discovery Bank (the Bank) launched for beta testing in November 2018 with a public rollout in June 2019. There has been a deliberate, phased rollout to ensure that the Bank scales seamlessly. The costs incurred in the build, test and run phases of the Bank have largely been in line with expectation and the migration of existing Discovery Card clients from FirstRand Bank to Discovery Bank is now gaining momentum. The Bank currently has over 22 000 clients, with over 50 000 accounts.

Although the public rollout of the Bank was slightly delayed, it allowed for the refinement of key elements of the Bank leading to a sophisticated architecture with a seamless user experience, and a compelling value proposition. Progress has been made in building the digital systems capabilities and infrastructure; 1.5 million hours have been spent building 120 interconnected systems and infrastructure, with a focus on ensuring that customer journeys are excellent and intuitive.

The Bank has gained traction since the public rollout, making considerable progress in a period of two months with over 22 000 clients on-boarded, and deposits and total credit limits approved exceeding R190 million and R900 million, respectively. The quality of clients has been demonstrably excellent with high engagement levels and Vitality money statuses.

The Group sees the Bank as central to its strategy in South Africa, presenting considerable opportunity to create a disruptive composite by enabling ubiquitous product integration. Several enhancements were developed over the period, which include a compelling rewards structure, which coalesces dynamic interest rates, dynamic discounts and a new e-money, Discovery Miles.

THE UK

Vitality UK

The UK business produced strong results for the financial year ended 30 June 2019. Combined new business increased by 10% to £144 million (R2 637 million, up 16%), operating profit grew by 15% to £73 million (R1 336 million, up 21%) and total covered lives exceeded 1.25 million, an increase of 21%. Notably, the new Healthy Workplace proposition – a stand-alone wellness solution for companies with more than 1 000 employees – gained significant traction with 72 000 lives being written on this product over the period.

Engagement in Vitality continued to be exceptional, evidenced by the completion of a record number of points-earning activities related to healthy behaviours, and high levels of Vitality reward utilisation. This contributed to a discernible increase in the proportion of members engaging in health-promoting activities over the past five years. Going forward, a key focus of the programme is supporting the health of members in higher risk segments.

There remains a strategic focus to use Vitality as a mechanism to enhance cross-sell opportunities across the Vitality UK businesses. Considerable work was done over the period to understand the dynamics of this approach, and the accompanying impact on distribution, servicing and the member experience.

VitalityHealth

VitalityHealth (VH) continued to deliver outstanding results. Operating profit grew by 22% to £41.4 million (R758 million), while new business grew by 15% to £73.5 million (R1 346 million). New business in the profitable individual segment grew by 25% to £39 million (53% of total sales) as the multi-channel distribution strategy in this market gained further traction. Total insured lives reached 643 000, an increase of 11%. The results reflect continued strong performance across all key business metrics: the lapse rate improved; claims performance was stable; and costs remained well managed, with further reductions in operational costs per life.

The VH back book was strongly cash flow positive, generating in excess of £84 million in cash. After new business acquisition costs and investment in developing the business, VH generated a £14.6 million cash surplus.

The business continued its significant investment in a number of leading servicing and digital technologies, as well as sophisticated machine learning techniques in sales and retention. The particular focus on retention over the period, reflected by more sophisticated and targeted retention strategies, resulted in the lapse rate reducing to an all-time low.

4 *Excluding Discovery Business Insurance.*

VitalityLife

VitalityLife (VL) delivered a resilient performance, amidst a considerably difficult economic environment with Brexit uncertainty and persistent low interest rates. New business API grew by 5% to £70.5 million (up 10% to R1 291 million), and operating profit grew by 7% to £31.6 million (up 12% to R578 million). The direct-to-consumer sales channel, which attracts business with superior Vitality engagement and lower lapse rates, continued to make steady progress and now makes up 11% of total sales.

The fundamentals of the business remained strong: claims experience was within expectation and showed an improvement over the previous financial period; Vitality wellness engagement continued to increase; and cost efficiencies were generated over the period. A key theme for the business was improving retention and addressing the negative lapse experience variances. To this end, several management initiatives were implemented, namely: a review of commission terms to focus on the quality of business, increased sophistication in the conservation strategy and a strengthening of the lapse assumptions.

VL continued to focus on product innovation over the period and launched a world-first product covering Alzheimer's disease and dementia in the first half of the year. The product has had good initial traction with an average take-up of 63% among eligible policies since inception.

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 of the business, following the launch, was on broker education related to the offering. VitalityInvest experienced a slower than expected start and is steadily gaining traction.

GLOBAL

Vitality Group

Vitality Group (VG) continued its growth trajectory and delivered an excellent set of results. Profits increased to $11.4 million (R161 million, up 71% from the prior year). Fee income grew by 97% to $65 million (R922 million), supported by strong growth in insurance partners' integrated premiums, which reached $824 million (R11.7 billion). Total Vitality membership surpassed the three million mark and is now at 3.6 million, 1.5 million of which are supported by the recently launched Vitality1. Vitality1 is a globally unified, scalable, cloud-based insuretech platform that markets can access. Membership[5] from insurance partners' integrated products reached 1.4 million, an increase of 82% from the prior year.

The Vitality1 technology infrastructure has enabled rapid and economical rollout in new territories and is currently live in six markets. Additional markets will launch in the coming months and a roadmap for the migration of established markets has been agreed to, leveraging Vitality1 technology to unlock the exponential growth potential of the Network. The Group continues to invest in the Vitality1 platform to allow Discovery to deliver its Shared-Value offering globally.

Over the period, VG marked its entry into South America by introducing Vitality Shared-Value Insurance in Ecuador through its partnership with Saludsa and Equivida. The business is well positioned and organised to execute on opportunity and deliver to its clients.

Vitality USA

Vitality USA achieved an excellent result and grew its profits by 35% from the prior year. Membership grew 19%, including the launch of the white label "earn your Apple Watch" offering with Attain by Aetna and a business-to-business offering with Walgreens.

The employer market is highly competitive, and Vitality USA continues to differentiate by achieving high engagement in its products, excellent client service and developing its Gateway offering – a holistic platform that extends Vitality USA's offering beyond fitness and nutrition by granting health and wellness vendors access to its members for a fee. Two corporate employer clients won the C. Everett Koop National Health Award, which recognises outstanding worksite health promotion and improvement programmes.

The business has developed a strong foundation for continued growth on its behaviour change platform, with more national champions being developed for launch over the coming year.

INSURANCE PARTNERSHIPS

AIA Vitality

AIA Vitality generated strong new business growth over the period with Annualised New Premiums (ANP) up 51%, while Vitality membership grew by 47%. AIA launched Vitality in New Zealand in May, initially offering the product to staff and sales agents, followed by a public launch in August. AIA Vitality now operates in 11 markets across Asia and Australasia.

John Hancock and Manulife Vitality

John Hancock delivered strong financial outperformance, writing a significant amount of new business (an increase of 213% from the prior year), while Manulife introduced Vitality1 in North America. The launch of Vitality GO, a free light Vitality offering to all of John Hancock's new policyholders (with a buy-up option to full Vitality) is a strong endorsement of John Hancock's commitment to Vitality. The Manulife Group Benefits Vitality programme was launched to staff, with the public launch set for September 2019.

Sumitomo Life Vitality

In its inaugural year, the Sumitomo Life Vitality programme produced a pleasing result. Policy count continued to grow at a rapid rate, coupled with high programme engagement. The programme has been well received by the market.

Generali Vitality

Expanding the distribution channels remains a priority for the Generali Vitality programme. Encouragingly, there was a 35% increase in membership from the prior year across Germany, France and Austria on aggregate. Generali continues to explore opportunities to roll out Vitality in more markets across Europe.

5 *Full Vitality membership.*

Vitality Active

VG's partnership with Hannover Re to expand Shared-Value Insurance products into next-tier markets has grown steadily with the total number of insurers signed up now at six. June marked a key milestone with the first launch of Vitality in Latin America.

CHINA

Ping An Health

Ping An Health (PAH) had a remarkable year, with total revenue growing by 74% to RMB8.6 billion and new business premium growth of over 67% to RMB4.9 billion (R10.1 billion) – the majority coming from e-sheng Bao (the individual internet product). PAH is on track to meet its written premium target of RMB10 billion for the 2019 calendar year. The Group's share of after-tax operating profit grew by 72% to US$7.5 million (R106 million), with part of this increase due to an insurance regulatory change, which increased the permitted amount of tax-deductible commission expenses. Approximately RMB140 million was recognised in tax relief for PAH in this accounting period, of which RMB68 million was due to the once-off retrospective tax adjustment for 2018. This change caused a once-off drop in PAH's effective tax rate from an estimated 67% to 31%, with the effective tax rate estimated to be 46% going forward.

Actuarial metrics for both the Individual and Group books remained within expectation. PAH focused on improving customer renewal rates over the period and developed a number of strategies to achieve this, manifesting in individual business renewal rates increasing to 69.7% from 66.3% in 2018.

PAH continued to expand its offline branch sales distribution footprint, enabling it to sell policies in new regions across China. The business opened a branch in Chongqing in April – one of China's largest municipal districts, which has close to 30 million citizens. Since opening, the branch has gained significant traction, generating RMB220 million in premiums.

The business also invested in scaling online operations and capabilities to support its vision of becoming China's leading tech-driven health insurer. Significant enhancements were made to the PAH app, to more effectively enable a full mobile user experience and a strong direct-to-consumer sales channel. The app demonstrated incredible growth of 185% over the past year, and now has 12 million registered users, with a current growth rate of roughly one million new users each month. A key strategy for the app is the HelloRun Club, PAH's digital-only version of Vitality, which is used to attract new users to the app and drive app engagement among existing customers. HelloRun Club currently has 3.65 million members, 1.68 million of which joined the programme in 2019. An expanded version of HelloRun Club will be launched at the end of September 2019.

PROSPECTS FOR GROWTH

Discovery is well positioned for growth, through its robust established businesses, emerging businesses that are scaling and expected to grow strongly going forward, and significant new initiatives which are being built. New businesses will require investment through their start-up phase, however the 21% spend on new businesses is expected to decrease toward the long-term goal of 10% of earnings over the next few years. Profit growth is expected to return to its stated goal of CPI +10% and the Group is well capitalised for its five-year planning horizon.

Discovery is supportive of the aims of the recently published National Health Insurance (NHI) Bill in SA, and will work closely with the relevant policy makers and stakeholders to ensure an optimal outcome to the legislative process. The Bill is not expected to have a material long-term impact on the Discovery Health business and may in fact present new opportunities for growth and product innovation.

The lower interest rate environment in the UK is expected to remain an important dynamic for some time and this will negatively impact the UK-based VitalityLife business, albeit that a significant component of this impact is unrealised and likely to reverse once interest rates normalise.

On behalf of the Board

M TUCKER	**A GORE**
Chairperson	Group Chief Executive

Sandton
3 September 2019

Notes to analysts

Any forecast financial information contained in this announcement has not been reviewed or reported on by the company'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_on reports, Annual results 2019.

STATEMENT OF FINANCIAL POSITION

at 30 June 2019

R million	Group 2019 Audited	Group 2018 Audited
ASSETS		
Assets arising from insurance contracts	**48 781**	43 625
Property and equipment	**4 212**	4 272
Intangible assets	**5 597**	5 491
Deferred acquisition costs[1]	**536**	1 150
Assets arising from contracts with customers[1]	**752**	–
Goodwill	**4 642**	2 247
Investment in equity-accounted investments	**1 950**	1 159
Financial assets		
– Available-for-sale investments	**–**	7 547
– Investments at amortised cost	**1 943**	–
– Investments at fair value through profit or loss	**90 205**	71 246
– Derivative financial instruments at fair value	**375**	494
Insurance receivables, contract receivables and other receivables	**9 015**	7 543
Deferred income tax asset	**2 372**	1 968
Current income tax asset	**136**	38
Reinsurance contracts	**314**	308
Cash and cash equivalents	**9 403**	10 894
Total assets	**180 233**	157 982
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**10 142**	8 308
Perpetual preference share capital	**779**	779
Other reserves	**452**	1 280
Retained earnings	**31 710**	27 227
	43 083	37 594
Non-controlling interest	*****	*
Total equity	**43 083**	37 594
LIABILITIES		
Liabilities arising from insurance contracts	**70 522**	61 488
Liabilities arising from reinsurance contracts	**10 835**	8 918
Financial liabilities		
– Borrowings at amortised cost	**14 682**	14 079
– Investment contracts at fair value through profit or loss	**20 674**	17 927
– Derivative financial instruments at fair value	**509**	78
– Trade and other payables	**10 262**	9 043
Deferred income tax liability	**8 697**	8 007
Deferred revenue[1]	**–**	324
Contract liabilities to customers[1]	**433**	–
Employee benefits	**260**	232
Current income tax liability	**276**	292
Total liabilities	**137 150**	120 388
Total equity and liabilities	**180 233**	157 982

* *Amount is less than R500 000.*
1 *Refer to note 'Effect of changes in IFRS 9 and IFRS 15 on date of initial application'.*

INCOME STATEMENT

for the year ended 30 June 2019

R million	Group 2019 Audited	Group 2018 Audited	% change
Insurance premium revenue	**43 036**	36 685	
Reinsurance premiums	**(5 595)**	(4 356)	
Net insurance premium revenue	**37 441**	32 329	16%
Fee income from administration business	**10 404**	9 252	
Vitality income	**3 653**	4 491	
Other income	**1 063**	–	
Investment income	**398**	895	
– investment income earned on shareholder investments and cash	**190**	209	
– investment income earned on assets backing policyholder liabilities	**208**	686	
Banking interest and similar income	**29**	–	
Net realised gains on available-for-sale financial assets	**–**	10	
Net fair value gains on financial assets at fair value through profit or loss	**4 265**	5 823	
Net income	**57 253**	52 800	8%
Claims and policyholders' benefits	**(24 538)**	(20 714)	
Insurance claims recovered from reinsurers	**3 659**	2 735	
Net claims and policyholders' benefits	**(20 879)**	(17 979)	
Acquisition costs	**(6 100)**	(5 594)	
Marketing and administration expenses	**(19 954)**	(17 219)	
Amortisation of intangibles from business combinations	**(99)**	(123)	
Recovery of expenses from reinsurers	**2 830**	2 542	
Net transfer to/from assets and liabilities under insurance contracts	**(4 706)**	(4 859)	
– change in assets arising from insurance contracts	**5 321**	5 141	
– change in assets arising from reinsurance contracts	**7**	36	
– change in liabilities arising from insurance contracts	**(8 050)**	(8 088)	
– change in liabilities arising from reinsurance contracts	**(1 984)**	(1 948)	
Fair value adjustment to liabilities under investment contracts	**(809)**	(1 308)	
Profit from operations	**7 536**	8 260	(9%)
Finance costs	**(1 375)**	(959)	
Foreign exchange losses	**–**	(4)	
Gain on dilution and disposal of equity-accounted investments	**844**	–	
Gain on previously held interests in DiscoveryCard business	**761**	–	
Impairment of goodwill	**(17)**	–	
Share of net profits from equity-accounted investments	**170**	115	
Profit before tax	**7 919**	7 412	7%
Income tax expense	**(1 305)**	(1 677)	22%
Profit for the year	**6 614**	5 735	15%
Profit attributable to:			
– ordinary shareholders	**6 533**	5 652	16%
– preference shareholders	**81**	83	
– non-controlling interest	*****	*	
	6 614	5 735	15%
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):			
– undiluted	**1 001.5**	876.1	14%
– diluted	**1 001.1**	875.6	14%

* *Amount is less than R500 000.*

STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 June 2019

R million	Group 2019 Audited	Group 2018 Audited	% change
Profit for the year	**6 614**	5 735	15%
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets[1]	**–**	37	
– unrealised gains	**–**	64	
– capital gains tax on unrealised gains	**–**	(19)	
– realised gains transferred to profit or loss	**–**	(10)	
– capital gains tax on realised gains	**–**	2	
Currency translation differences	**(140)**	840	
– unrealised (losses)/gains	**(142)**	856	
– tax on unrealised losses/(gains)	**2**	(16)	
Cash flow hedges	**(175)**	2	
– unrealised (losses)/gains	**(91)**	200	
– tax on unrealised losses/gains	**(7)**	(32)	
– gains recycled to profit or loss	**(98)**	(188)	
– tax on recycled gains	**21**	22	
Share of other comprehensive income from equity-accounted investments	**(19)**	42	
– change in available-for-sale financial assets[1]	**–**	(9)	
– currency translation differences	**(19)**	51	
Other comprehensive (losses)/income for the year, net of tax	**(334)**	921	
Total comprehensive income for the year	**6 280**	6 656	(6%)
Attributable to:			
– ordinary shareholders	**6 199**	6 573	(6%)
– preference shareholders	**81**	83	
– non-controlling interest	*****	*	
Total comprehensive income for the year	**6 280**	6 656	(6%)

** Amount is less than R500 000.*

1 This category is no longer available under IFRS 9: Financial instruments. On transition, the balance on the available-for-sale reserve in equity has been transferred to retained earnings.

HEADLINE EARNINGS

for the year ended 30 June 2019

R million	Group 2019 Audited	Group 2018 Audited	% change
Basic earnings per share (cents):			
– undiluted	**1 001.5**	876.1	14%
– diluted	**1 001.1**	875.6	14%
Headline earnings per share (cents):			
– undiluted	**789.0**	899.6	(12%)
– diluted	**788.7**	899.0	(12%)
Normalised headline earnings per share (cents):			
– undiluted	**771.9**	837.4	(8%)
– diluted	**771.6**	836.9	(8%)
The reconciliation between earnings and headline earnings is shown below:			
Net profit attributable to ordinary shareholders	**6 533**	5 652	16%
Adjusted for:			
– gain on dilution and disposal of equity-accounted investments, net of tax	**(666)**	–	
– gain on previously held interests in DiscoveryCard business	**(761)**	–	
– impairment of goodwill	**17**	–	
– impairment of intangible assets, net of tax	**23**	162	
– losses/(gains) on disposal of property and equipment net of capital gains tax	**1**	(3)	
– realised gains on available-for-sale financial assets net of capital gains tax	**–**	(8)	
Headline earnings	**5 147**	5 803	(11%)
– accrual of dividends payable to preference shareholders	**–**	1	
– amortisation of intangibles from business combinations net of deferred tax	**84**	109	
– costs relating to disposal of equity-accounted investments net of tax	**15**	–	
– debt restructuring costs resulting from DiscoveryCard business transaction	**33**	–	
– deferred tax asset raised on assessed losses	**(326)**	(352)	
– deferred tax related to Discovery Life 'new adjusted IFRS basis' and Corporate Policyholder Fund assessed loss	**(38)**	(119)	
– duplicate building costs	**–**	37	
– unrealised losses/(gains) on foreign exchange contracts not designated as a hedge	**97**	(77)	
– initial expenses related to Prudential Book transfer	**23**	(1)	
Normalised headline earnings	**5 035**	5 401	(7%)
Weighted number of shares in issue (000's)	**652 295**	645 014	
Diluted weighted number of shares (000's)	**652 568**	645 408	

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

Normalised operating profit per the segmental information, reflects the cash rental costs separately from the International Financial Reporting Standards (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 deemed finance costs and depreciation as required by IAS 17 and this prescribed accounting treatment is not normalised for purposes of determining normalised headline earnings.

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 R202 million (2018: R150 million), net of tax, in normalised headline earnings to R5 237 million (2018: R5 551 million) (decrease of 6% compared to the prior financial year). This adjustment would be calculated by replacing the depreciation of R210 million and finance charges of R357 million recognised in line with IFRS, with the actual market related rentals of R286 million, adjusting for tax.

Normalised headline earnings per share (with market related cash rentals) would be 802.9 cents per share on an undiluted basis and 802.6 cents per share on a diluted basis.

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2019

R million (Audited)	Attributable to equity holders of the Company Share capital and share premium	Preference share capital	Share-based payment reserve
Year ended 30 June 2019			
At beginning of year	**8 308**	**779**	**327**
IFRS transitional adjustments	**–**	**–**	**–**
IFRS transitional adjustments (tax impact)	**–**	**–**	**–**
Adjusted balance at beginning of year	**8 308**	**779**	**327**
Total comprehensive income for the year	**–**	**81**	**–**
Profit for the year	**–**	**81**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**1 834**	**(81)**	**(286)**
Delivery of treasury shares	**4**	**–**	**–**
Increase in treasury shares	**(5)**	**–**	**–**
Share issue	**1 854**	**–**	**–**
Share issue cost	**(19)**	**–**	**–**
Change in ownership without change in control[2]	**–**	**–**	**–**
Employee share option schemes:			
– Value of employee services	**–**	**–**	**33**
Transfer of vested equity-settled share schemes	**–**	**–**	**(319)**
Dividends paid to preference shareholders	**–**	**(81)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of year	**10 142**	**779**	**41**
Year ended 30 June 2018			
At beginning of year	8 306	779	314
Total comprehensive income for the year	–	83	–
Profit for the year	–	83	–
Other comprehensive income	–	–	–
Transactions with owners	2	(83)	13
Delivery of treasury shares	2	–	–
Employee share option schemes:			
– Value of employee services	–	–	13
Dividends paid to preference shareholders	–	(83)	–
Dividends paid to ordinary shareholders	–	–	–
At end of year	8 308	779	327

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.
2 Refer to 'Significant transactions affecting the current results – Banking'.
** 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)
–	–	–	4	4	–	4
–	744	1	27 362	37 521	*	37 521
–	(159)	(175)	6 533	6 280	*	6 280
–	–	–	6 533	6 614	*	6 614
–	(159)	(175)	–	(334)	*	(334)
–	–	–	(2 185)	(718)	–	(718)
–	–	–	–	4	–	4
–	–	–	–	(5)	–	(5)
–	–	–	–	1 854	–	1 854
–	–	–	–	(19)	–	(19)
–	–	–	(1 104)	(1 104)	–	(1 104)
–	–	–	–	33	–	33
–	–	–	319	–	–	–
–	–	–	–	(81)	–	(81)
–	–	–	(1 400)	(1 400)	–	(1 400)
–	585	(174)	31 710	43 083	*	43 083
180	(147)	(1)	22 859	32 290	*	32 290
28	891	2	5 652	6 656	*	6 656
–	–	–	5 652	5 735	*	5 735
28	891	2	–	921	*	921
–	–	–	(1 284)	(1 352)	–	(1 352)
–	–	–	–	2	–	2
				–		–
–	–	–	–	13	–	13
–	–	–	–	(83)	–	(83)
–	–	–	(1 284)	(1 284)	–	(1 284)
208	744	1	27 227	37 594	*	37 594

STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

R million	Group 2019 Audited	Group 2018 Audited
Cash flow from operating activities	**1 738**	3 414
Cash generated by operations	**12 154**	10 875
Purchase of investments held to back policyholder liabilities	**(35 109)**	(24 217)
Proceeds from disposal of investments held to back policyholder liabilities	**23 831**	16 179
Working capital changes	**625**	250
	1 501	3 087
Dividends received	**339**	252
Interest received	**2 274**	2 062
Interest paid	**(1 219)**	(759)
Taxation paid	**(1 157)**	(1 228)
Cash flow from investing activities	**(2 844)**	(2 433)
Purchase of financial assets	**(21 724)**	(23 631)
Proceeds from disposal of financial assets	**21 830**	23 621
Purchase of property and equipment	**(510)**	(470)
Proceeds from disposal of property and equipment	**95**	7
Purchase of software and other intangible assets	**(1 999)**	(1 940)
Proceeds from disposal of intangible assets	**22**	–
Proceeds from the disposal of equity-accounted investments	**402**	–
Additional investment in equity-accounted investments	**(224)**	(20)
Acquisition of business net of cash	**(736)**	–
Cash flow from financing activities	**(344)**	609
Proceeds from issuance of ordinary shares	**1 854**	–
Share issue costs	**(19)**	–
Acquisition of additional interest in subsidiary	**(1 104)**	–
Dividends paid to ordinary shareholders	**(1 400)**	(1 284)
Dividends paid to preference shareholders	**(81)**	(83)
Proceeds from borrowings	**2 147**	2 654
Repayment of borrowings	**(1 741)**	(678)
Net (decrease)/increase in cash and cash equivalents	**(1 450)**	1 590
Cash and cash equivalents at beginning of year	**10 888**	9 097
Exchange (losses)/gains on cash and cash equivalents	**(35)**	201
Cash and cash equivalents at end of year	**9 403**	10 888
Reconciliation to Statement of financial position		
Cash and cash equivalents	**9 403**	10 894
Bank overdraft included in borrowings at amortised cost	**–**	(6)
Cash and cash equivalents at end of year	**9 403**	10 888

ADDITIONAL INFORMATION

at 30 June 2019

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.

	30 June 2019			
R million (Audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	**33 966**	**1 015**	**–**	**34 981**
– Equity linked notes	**23**	**3 178**	**–**	**3 201**
– Debt securities	**19 531**	**1 599**	**–**	**21 130**
– Inflation linked securities	**554**	**–**	**–**	**554**
– Money market securities	**7 359**	**6 406**	**–**	**13 765**
– Mutual funds	**16 574**	**–**	**–**	**16 574**
Derivative financial instruments at fair value:				
– used for cash flow hedges	**–**	**176**	**–**	**176**
– not designated as hedging instruments	**–**	**199**	**–**	**199**
	78 007	**12 573**	**–**	**90 580**
Financial liabilities				
Investment contracts at fair value through profit or loss	**–**	**20 674**	**–**	**20 674**
Derivative financial instruments at fair value:				
– used for cash flow hedges	**–**	**250**	**–**	**250**
– not designated as hedging instruments	**–**	**259**	**–**	**259**
	–	**21 183**	**–**	**21 183**

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

Fair value hierarchy of financial instruments continued

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.

	30 June 2018			
R million (Audited)	Level 1	Level 2	Level 3	Total
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	15 241	413	–	15 654
– Inflation linked securities	1 096	–	–	1 096
– Money market securities	610	5 256	–	5 866
– Mutual funds	17 777	–	–	17 777
Available-for-sale financial instruments:				
– 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:				
– used for cash flow hedges	–	337	–	337
– not designated as hedging instruments	–	157	–	157
	69 651	9 636	–	79 287
Financial liabilities				
Investment contracts at fair value through profit or loss	–	17 927	–	17 927
Derivative financial instruments at fair value:				
– used for cash flow hedges	–	55	–	55
– not designated as hedging instruments	–	23	–	23
	–	18 005	–	18 005

Exchange rates used in the preparation of these results

	USD	GBP
30 June 2019		
– Average	**14.17**	**18.32**
– Closing	**14.15**	**17.98**
30 June 2018		
– Average	12.86	17.33
– Closing	13.81	18.16

SEGMENTAL INFORMATION

for the year ended 30 June 2019

R million (Audited)	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	167	12 131	14 267	–
Reinsurance premiums	(1)	(2 410)	–	–
Net insurance premium revenue	166	9 721	14 267	–
Fee income from administration business	6 815	–	2 050	–
Vitality income	–	–	–	2 329
Other income	782	42	–	–
Investment income earned on assets backing policyholder liabilities	–	14	1	–
Banking interest and similar income	–	–	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(754)	754	–
Net fair value gains on financial assets at fair value through profit or loss	7	1 056	1 849	–
Net income	7 770	10 079	18 921	2 329
Claims and policyholders' benefits	(65)	(8 205)	(8 989)	–
Insurance claims recovered from reinsurers	1	2 168	–	–
Net claims and policyholders' benefits	(64)	(6 037)	(8 989)	–
Acquisition costs	(6)	(1 705)	(1 138)	(87)
Marketing and administration expenses				
– depreciation and amortisation	(223)	(4)	(4)	(8)
– impairment of intangible assets	(4)	–	–	(5)
– other expenses	(4 423)	(1 876)	(904)	(2 169)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 475	–	–
– change in assets arising from reinsurance contracts	–	10	–	–
– change in liabilities arising from insurance contracts	(9)	(251)	(6 837)	–
– change in liabilities arising from reinsurance contracts	–	(458)	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(83)	–
Share of net profits from equity-accounted investments	3	–	–	–
Normalised profit/(loss) from operations	3 044	3 230	966	60
Investment income earned on shareholder investments and cash	57	8	35	42
Net fair value gains/(losses) on financial assets at fair value through profit or loss	–	224	(9)	–
Gains from dilution and disposal of equity-accounted investments	–	–	–	–
Gain on previously held interests in DiscoveryCard business	–	–	–	–
Impairment of goodwill	–	–	–	–
Initial expenses related to Prudential Book transfer	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–
Finance costs	(10)	(2)	–	–
Foreign exchange gains/(losses)	1	–	6	–
Profit before tax	3 092	3 460	998	102
Income tax expense	(741)	(880)	(280)	(29)
Profit for the year	2 351	2 580	718	73

1 The inter-segment funding of R754 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: UK Life[2]	IFRS reporting adjustments: DUT[3]	IFRS reporting adjustments: Disclosure adjustments[4]	IFRS total
8 429	4 750	3 959	43 703	(667)	–	–	43 036
(1 393)	(2 177)	(281)	(6 262)	667	–	–	(5 595)
7 036	2 573	3 678	37 441	–	–	–	37 441
15	–	1 542	10 422	–	–	(18)	10 404
501	157	666	3 653	–	–	–	3 653
39	–	222	1 085	–	–	(22)	1 063
10	42	141	208	–	–	–	208
–	–	29	29	–	–	–	29
–	(243)	–	(243)	243	–	–	–
–	–	–	–	–	–	–	–
40	211	33	3 196	–	1 036	33	4 265
7 641	2 740	6 311	55 791	243	1 036	(7)	57 063
(4 613)	(1 133)	(1 933)	(24 938)	400	–	–	(24 538)
1 088	620	182	4 059	(400)	–	–	3 659
(3 525)	(513)	(1 751)	(20 879)	–	–	–	(20 879)
(732)	(1 888)	(301)	(5 857)	(243)	–	–	(6 100)
(251)	(34)	(520)	(1 044)	–	–	(210)	(1 254)
–	–	(23)	(32)	–	–	–	(32)
(3 148)	(2 060)	(4 025)	(18 605)	(64)	(253)	254	(18 668)
814	2 016	–	2 830	–	–	–	2 830
			–				
–	1 570	(4)	5 041	280	–	–	5 321
(8)	10	(5)	7	–	–	–	7
(33)	(17)	(738)	(7 885)	–	(16)	(149)	(8 050)
–	(1 246)	–	(1 704)	(280)	–	–	(1 984)
–	–	–	(86)	–	(767)	44	(809)
–	–	167	170	–	–	–	170
758	578	(889)	7 747	(64)	–	(68)	7 615
1	14	33	190	–	–	–	190
–	–	(144)	71	–	–	(71)	–
–	–	823	823	–	–	21	844
–	–	761	761	–	–	–	761
–	–	(17)	(17)	–	–	–	(17)
–	(28)	–	(28)	–	–	28	–
–	–	(99)	(99)	–	–	–	(99)
–	–	(281)	(281)	–	–	281	–
–	(3)	(1 020)	(1 035)	–	–	(340)	(1 375)
–	–	(7)	–	–	–	–	–
759	561	(840)	8 132	(64)	–	(149)	7 919
(38)	(138)	588	(1 518)	64	–	149	(1 305)
721	423	(252)	6 614	–	–	–	6 614

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 contractual arrangement, for business written on Prudential Assurance Company's (PAC's) life insurance licence (up to 31 December 2015), is reclassified 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 year ended 30 June 2018

R million (Audited)	SA Health	SA Life Restated[2]	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	30	11 103	12 056	–
Reinsurance premiums	(2)	(2 141)	–	–
Net insurance premium revenue	28	8 962	12 056	–
Fee income from administration business[6]	6 416	–	1 875	–
Vitality income[6]	–	–	–	2 214
Other income[6]	495	31	–	–
Investment income on assets backing policyholder liabilities	–	400	44	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(708)	708	–
Net fair value gains/(losses) on financial instruments at fair value through profit or loss	2	375	3 741	–
Net income	6 941	9 060	18 424	2 214
Claims and policyholders' benefits	(2)	(6 943)	(7 375)	–
Insurance claims recovered from reinsurers	1	1 534	–	–
Net claims and policyholders' benefits	(1)	(5 409)	(7 375)	–
Acquisition costs	(3)	(1 606)	(1 046)	(76)
Marketing and administration expenses				
– depreciation and amortisation	(305)	(8)	–	(3)
– impairment of intangible assets	(7)	–	–	–
– other expenses	(3 855)	(1 639)	(808)	(2 077)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 405	–	–
– change in assets arising from reinsurance contracts	–	25	–	–
– change in liabilities arising from insurance contracts	(1)	(35)	(8 031)	–
– change in liabilities arising from reinsurance contracts	–	(239)	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(279)	–
Share of net profits from equity-accounted investments	8	–	–	–
Normalised profit/(loss) from operations	2 777	3 551	885	58
Investment income earned on shareholder investments and cash	66	111	26	30
Net realised gains on available-for-sale financial assets	–	6	1	–
Net fair value gains on financial assets at fair value through profit or loss	–	214	–	–
Initial expenses related to Prudential Book transfer	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–
Finance costs	(41)	(9)	–	–
Foreign exchange gains/(losses)	(3)	–	(9)	–
Profit before tax	2 799	3 873	903	88
Income tax expense	(718)	(929)	(253)	(25)
Profit for the period	2 081	2 944	650	63

1 The inter-segment funding of R708 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 Insurance Act 18 of 2017, on 1 July 2018, the risk reserve is no longer required to be fully backed by tangible 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 R286 million below operating profit, to afford better comparability. This has been presented as R72 million in 'Investment income earned on shareholder investments and cash' and R214 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	Segment total	IFRS reporting adjustments: UK Life[3]	IFRS reporting adjustments: DUT[4]	IFRS reporting adjustments: Disclosure adjustments[5]	IFRS reporting adjustments: IFRS 15 adjustments[6]	IFRS total
7 471	4 031	2 665	37 356	(671)	–	–	–	36 685
(1 165)	(1 559)	(160)	(5 027)	671	–	–	–	(4 356)
6 306	2 472	2 505	32 329	–	–	–	–	32 329
30	–	1 090	9 411	–	–	4	(163)	9 252
444	91	697	3 446	–	–	–	1 045	4 491
–	–	247	773	–	–	–	(773)	–
11	18	141	614	–	–	72	–	686
–	(160)	–	(160)	160	–	–	–	–
–	–	–	–	–	–	–	–	–
(1)	92	18	4 227	–	1 312	284	–	5 823
6 790	2 513	4 698	50 640	160	1 312	360	109	52 581
(4 029)	(997)	(1 590)	(20 936)	447	(225)	–	–	(20 714)
938	584	125	3 182	(447)	–	–	–	2 735
(3 091)	(413)	(1 465)	(17 754)	–	(225)	–	–	(17 979)
(536)	(1 887)	(280)	(5 434)	(160)	–	–	–	(5 594)
(238)	(18)	(242)	(814)	–	–	(126)	–	(940)
(193)	–	–	(200)	–	–	–	–	(200)
(2 849)	(1 620)	(3 163)	(16 011)	(27)	–	68	(109)	(16 079)
625	1 917	–	2 542	–	–	–	–	2 542
–	2 855	–	6 260	(1 119)	–	–	–	5 141
5	6	(1)	35	1	–	–	–	36
76	(10)	(49)	(8 050)	(1)	(21)	(16)	–	(8 088)
–	(2 828)	–	(3 067)	1 119	–	–	–	(1 948)
–	–	–	(282)	–	(1 066)	40	–	(1 308)
–	–	107	115	–	–	–	–	115
589	515	(395)	7 980	(27)	–	326	–	8 279
1	6	41	281	–	–	(72)	–	209
–	–	3	10	–	–	–	–	10
–	–	110	324	–	–	(324)	–	–
–	(2)	–	(2)	–	–	2	–	–
–	–	(123)	(123)	–	–	–	–	(123)
–	–	(208)	(208)	–	–	208	–	–
(1)	(2)	(713)	(766)	–	–	(193)	–	(959)
–	(3)	11	(4)	–	–	–	–	(4)
589	514	(1 274)	7 492	(27)	–	(53)	–	7 412
(13)	(85)	303	(1 720)	27	–	16	–	(1 677)
576	429	(971)	5 772	–	–	(37)	–	5 735

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

3 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.

4 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.

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

6 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.

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's (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 by 13% for the year ended 30 June 2019 when compared to the prior financial year.

R million	June 2019	June 2018	% change
Discovery Health – DHMS	**5 352**	5 422	(1)
Discovery Health – Closed Schemes[1]	**1 288**	1 151	12
Discovery Life	**2 312**	2 188	6
Discovery Invest	**2 604**	2 454	6
Discovery Insure	**1 041**	1 047	(1)
Discovery Vitality	**161**	162	(1)
VitalityHealth	**1 346**	1 107	22
VitalityLife	**1 291**	1 172	10
Ping An Health (25% interest)	**2 518**	1 434	76
Other new businesses[2]	**386**	–	–
Core new business API of Group	**18 299**	16 137	13
New Closed Schemes[1]	**25**	96	(74)
New business API of Group including new Closed Schemes	**18 324**	16 233	13
Gross revenue Vitality Group[3]	**922**	645	43
Total new business API and other new business	**19 246**	16 878	14

1 Closed Schemes refer to those restricted to certain employers and industries. The new business API for Discovery Health – 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.
2 Other new businesses include the Umbrella Fund business, Discovery Insure commercial business and the VitalityInvest business.
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 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 by 11% for the year ended 30 June 2019 when compared to the prior financial year.

R million	June 2019	June 2018 Restated[1]	% change
Discovery Health	**82 148**	75 430	9
Discovery Life	**12 173**	11 134	9
Discovery Invest	**22 132**	19 901	11
Discovery Insure	**3 198**	2 675	20
Discovery Vitality	**2 329**	2 214	5
VitalityHealth	**8 984**	7 945	13
VitalityLife	**4 907**	4 122	19
All other businesses	**3 191**	2 024	58
Gross inflows under management	**139 062**	125 445	11
Less: collected on behalf of third parties	**(80 199)**	(74 459)	8
Discovery Health	**(74 384)**	(68 489)	9
Discovery Invest	**(5 815)**	(5 970)	(3)
Gross income of Group per the segmental information	**58 863**	50 986	15
Gross income is made up as follows:			
– Insurance premium revenue	**43 703**	37 356	17
– Fee income from administration business	**10 422**	9 411	11
– Vitality income	**3 653**	3 446	6
– Other income	**1 085**	773	40
Gross income of Group per the segmental information	**58 863**	50 986	15

1 *Comparatives have been restated in order to meet requirements of IFRS 15.*

Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2019:

R million	June 2019	June 2018	% change
Discovery Health	**3 044**	2 777	10
Discovery Life[1]	**3 230**	3 551	(9)
Discovery Invest	**966**	885	9
Discovery Vitality	**60**	58	3
VitalityHealth	**758**	589	29
VitalityLife	**578**	515	12
Normalised profit from established businesses	**8 636**	8 375	3
Emerging businesses	**422**	218	94
– Discovery Insure	**155**	68	128
– Vitality Group[2]	**267**	150	78
Development and other segments[2]	**(1 311)**	(613)	(114)
Normalised profit from operations	**7 747**	7 980	(3)

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 Insurance Act 18 of 2017, on 1 July 2018, the risk reserve is no longer required to be fully backed by tangible assets and hence some assets that previously backed positive risk reserves were reclassified 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 in the table above, to exclude risk reserve interest of R286 million to afford better comparability.*

2 *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 R60 million. A significant part of this includes the Vitality1 system 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, Discovery Bank, the UK investment business VitalityInvest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Discovery Invest. Certain unallocated head office costs are also included in this segment.

Significant transactions affecting the current results

Banking

During the current financial year Discovery obtained control over the DiscoveryCard business as well as full ownership of Discovery Bank. 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 FirstRand Bank Limited Group's (FirstRand) equity interest in Discovery Bank
- acquiring the remaining 25.01% economic interest that FirstRand owned in the DiscoveryCard business
- Discovery Bank acquiring all rights to the DiscoveryCard book and related assets, which Discovery Bank has started to migrate during the current financial period.

The transaction received final approval by the respective regulatory authorities, including the Prudential Authority and the Competition Authorities, in November 2018.

The acquisition of FirstRand's equity interest in Discovery Bank constituted a transaction with non-controlling interest, and is accounted for as a separate transaction between equity holders. This resulted in R1 104 million being recognised in the Statement of changes in equity.

The acquisition of all rights to the DiscoveryCard book and related assets, together with the acquisition of the remaining 25.01% economic interest in the DiscoveryCard business, resulted in a business combination in accordance with IFRS. Discovery has not early adopted the amendments to the definition of a business in IFRS 3 *Business Combinations.*

The accounting for the above transactions with FirstRand has been finalised, resulting in the recognition of the following assets, liabilities and changes in equity:

R million	Reference	June 2019
Acquisition of DiscoveryCard Business		
Purchase price of acquiring DiscoveryCard business	i	**2 350**
Plus: Identifiable liabilities – expected credit loss derivative	ii	**175**
Less: Identifiable Intangible assets	ii	**(150)**
Client Relationships	ii	**(130)**
Core Deposit Funding benefit	ii	**(20)**
Plus: Deferred tax liability associated with business combination		**42**
Goodwill	ii	**2 417**
Acquisition of FirstRand Interest		
Retained earnings	iii	**(1 104)**

i. **Funding of acquisition**

The total combined purchase price payable by Discovery to FirstRand was R1.8 billion. Since the acquisition of the remaining 25.01% 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 share capital and share premium of R1.8 billion. Costs of R19 million were incurred in respect of the vendor consideration placement and has 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.

Included in the purchase price is the fair value of the previously held interest in the DiscoveryCard business. As part of accounting for a Business Combination, any previously held interests are re-measured to fair value at the acquisition date and treated as part of the consideration transferred to obtain control (IFRS 3.37, 42). These previously held interests included the 54.99% economic interest (acquired in 2015) and 20% economic interest held since inception of the DiscoveryCard business. The gain on previously held interests in the DiscoveryCard business amounted to R761million. This gain is adjusted for in the determination of headline earnings and normalised headline earnings.

ii. **Identifiable asset acquired, liabilities assumed and Goodwill**

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred over the fair value of the identifiable assets and liabilities, is recognised as goodwill.

The Core Deposit Funding benefit represents core deposits held by customers in the DiscoveryCard book which gives rise to lower than normal cost of funding for loans and advances. Both the Client Relationships and Core Deposit Funding benefit will be amortised to profit or loss over their respective useful life of 10 years.

The expected credit loss derivative represents a potential obligation to migrate the book at an amount that is not reflective of the book's fair value. The liability will release to profit or loss during migration of the book.

The existing individual customer accounts in the DiscoveryCard business will only be recognised by Discovery Bank when the individual loans and advances are migrated onto the Discovery Bank platform.

iii. **Acquisition of FirstRand Investment Holdings Limited share of Discovery Bank**

Discovery has acquired the remaining 48.87% interest in Discovery Bank from FirstRand (effective ultimate intended shareholding of 25.01%), being the non-controlling interest. The transaction resulted in Discovery now wholly owning Discovery Bank. The transaction has resulted in a change of ownership without a change in control. No additional goodwill can be recognised to reflect subsequent purchases of additional shares in a subsidiary if 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. This required treatment resulted in a reduction in retained earnings of R1 104 million in the Statement of changes in equity.

Cambridge Mobile Telematics Transaction

Shareholders are referred to the announcement on 20 December 2018 advising that Cambridge Mobile Telematics ("CMT"), an associate 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 subsequently received the required approval from the U.S. regulators.

Upon the completion of the transaction, Discovery's effective shareholding in CMT reduced from 16.5% to 10% on a fully diluted basis. Discovery's profit from the transaction was USD 55.7 million (R790 million), USD 28.4 million (R402 million) of which was realised in cash. The profit has been included in the 'Gain on dilution and disposal of equity-accounted investments' in the Income Statement. Discovery Insure's strategic partnership with CMT remains in place following the transaction.

Borrowings at amortised cost

R million	Reference	June 2019	June 2018
Borrowings from Banks		**11 034**	9 050
– United Kingdom borrowings	i	**1 612**	1 810
– South African borrowings	ii	**9 422**	7 240
Redeemable preference shares	iii	**–**	1 402
Finance lease liability		**3 648**	3 621
– 1 Discovery Place		**3 321**	3 237
– Other finance lease liabilities		**327**	384
Overdrafts with Banks		**–**	6
Total borrowings at amortised cost		**14 682**	14 079

i. United Kingdom borrowings

Discovery previously entered into term facilities totaling 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 of this facility on 30 November 2018. The balance owing at 30 June 2019 amounts to GBP 90 million (R1 612 million) (2018: GBP 99.7 million (R1 810 million)). Included in the outstanding balance is GBP 39.5 million (R710 million) which matures on 23 June 2020.

These facilities carry interest at floating 3 month LIBOR, payable quarterly in arrears. Finance costs of R42 million (2018: R40 million) in respect of these borrowings have been recognised in profit or loss.

ii. South African borrowings

R million	Reference	June 2019	June 2018
Balance at beginning of the period		**7 240**	4 600
Issuance of listed debt	a.	**700**	1 500
Draw down on existing and new bank facilities	b.	**1 447**	1 154
Repayment of borrowings	b.	**(30)**	(80)
Accrued interest		**68**	77
Finance costs capitalised to intangible assets		**47**	64
Finance costs accrued to profit or loss		**787**	492
Finance costs paid		**(766)**	(479)
Raising fees capitalised		**(4)**	(11)
Net foreign exchange differences		**1**	–
Balance at end of the period		**9 422**	7 240

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

a. During the previous financial year, 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. Discovery issued further Floating Rate Notes of R700 million, on 29 August 2018, 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 date on 21 August 2026.

b. Discovery Central Services, 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 R832 million (2018: R512 million) in respect of South African borrowings and related hedges, 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, these costs have been added back.

Finance costs of R58 million (2018: R116 million) in respect of the redeemable preference shares have been recognised in profit or loss.

Other significant items in these results

Deferred tax

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

A deferred tax liability of R8 854 million is attributable to assets/liabilities arising from insurance contracts. In June 2018 an amount of R119 million relating to timing differences on transition was recognised as a reduction in deferred tax liabilities for Discovery Life. As the new tax basis is now in effect, this item has been derecognised in the current period.

During the current year a deferred tax asset of R291 million has been recognised on the assessed loss in Vitality Group International. Further amounts were raised during the current year in respect of the Discovery Life Company Policyholder Fund and VitalityHealth assessed losses (R157 million and R35 million respectively) which have now been recognised in full. These items have been adjusted for in the calculation of normalised headline earnings.

In respect of the Discovery Life Individual Policyholder Fund, the net deferred tax asset which is implicit in the valuation of insurance contract liabilities and explicitly reclassified in terms of IFRS has increased to R728 million this period (2018: R579 million). The impact on the income statement for the current financial year is an increase in 'Net transfer to/from liabilities arising from insurance contracts' of R147 million and a corresponding decrease in Income tax expense (2018: R16 million decrease in Income tax expense). The net effect, after tax, for both the current and prior year is therefore zero.

Discovery's new head office

Discovery entered into a 15 year lease agreement for its new head office which comprised 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 buildings at those dates, on a phased approach.

Consistent with IFRS, Discovery recognises the transaction as a finance lease. 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 in 2018. 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.

Effective 1 July 2019, Discovery will apply the new IFRS standard for leases, IFRS 16 *Leases*. The new standard would result in a similar treatment as is currently being applied. The recognised asset is depreciated over the lease term, using the straight-line method. The table below summarises subsequent measurement:

R million	June 2019	June 2018[1]	% change
Finance costs recognised in profit or loss	**(357)**	(210)	(70)
Depreciation recognised in profit or loss	**(210)**	(126)	(67)
Market related rentals recognised as a reduction of the lease liability	**286**	128	123
	(281)	(208)	(35)

1 *The comparative included 8 months of charges as the initial recognition date was 1 November on Phase I. Phase II was only recognised in March 2018 and hence only 4 months were included in the comparative number.*

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 deemed finance costs and depreciation as required by IAS 17 and this prescribed accounting treatment is not normalised for purposes of determining normalised headline earnings.

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 R202 million (2018: R150 million), net of tax, in normalised headline earnings to R5 237 million (2018: R5 551 million) (decrease of 6% compared to the prior financial year).

This adjustment would be calculated by replacing the depreciation of R210 million and finance charges of R357 million recognised in line with IFRS, with the actual market related rentals of R286 million, and adjusting for tax.

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 R2 821 million respectively, compared to the prior financial year with movements in the following line items on the Group's Statement of financial position:

Changes in assets

- Investments at fair value through profit or loss increased by R1 685 million.
- Cash and cash equivalents increased by R1 003 million.
- Other assets increased by R133 million.

Changes in liabilities

- Investment contracts at fair value through profit or loss increased by R2 574 million.
- Trade and other payables increased by R237 million.
- Other liabilities increased by R10 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 R15.6 billion.
- Proceeds from the disposal of investments held to back policyholder liabilities includes cash inflows of R14.2 billion.

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 R5 853 million for the year (2018: R5 496 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.

New accounting standards

The following two International Financial Reporting Standards (IFRS) became effective for the first time during the current financial year. The impact of the first time adoption of these standards is set out below.

IFRS 9 Financial instruments

Classification

IFRS 9 introduces new requirements for the classification of financial assets. In classifying financial assets, consistent with IFRS 9, Discovery considers:

- Whether the contractual cash flows of the financial asset are solely payments of principal and interest (SPPI). Such contractual cash flows are consistent with a basic lending arrangement, and compensates Discovery for the elements of time value of money, credit risk and other basic lending risks and a profit margin. Examples of such instruments include Treasury Bills, Government Bonds, cash and fixed term deposits. It excludes instruments such as equity-linked financial assets or puttable investments in unit trusts; and
- The business model for holding the financial assets.

Based on the criteria above, Discovery will classify a financial asset at:

- Amortised cost, if the financial asset meets the SPPI criterion and is held for the purpose to collect the contractual cash flows. Examples of this include loans and advances to customers (e.g. credit card advances) and fixed term deposits;
- Fair value with changes in other comprehensive income (debt instruments), if the financial asset meets the SPPI criterion and is held both to collect contractual cash flows and by selling the financial assets. Discovery currently does not hold financial assets in this category.

- Fair value with changes in other comprehensive income (equity instruments), if Discovery irrevocably designates the equity instrument in this category. Discovery currently does not hold financial assets in this category.
- Fair value through profit or loss, for all other financial assets that do not meet the criteria above (mandatorily). In addition, Discovery can designate financial assets into this category if this will reduce measurement inconsistencies (i.e. 'accounting mismatch') (designated). For those financial assets backing insurance contracts, Discovery measures these financial assets at fair value through profit or loss. Unit-linked investment contracts are also mandatorily classified at fair value through profit or loss.

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. These investments have been reclassified as at fair value through profit or loss (mandatorily). On reclassification, the balance on the available-for-sale reserve in equity has been transferred to retained earnings.

Impairment

IFRS 9 introduces a new impairment model, namely the expected credit loss model, which will result in earlier recognition of credit losses by requiring allowances to cover both already-incurred losses and losses expected in the future. The impairment requirements relate to financial assets measured at amortised cost, fair value through profit or loss (debt instruments), contract assets recognised in accordance with IFRS 15 *Revenue from Contracts with Customers* and lease receivables recognised in accordance with IAS 17 *Leases*.

For Discovery, this relates to items disclosed on the Statement of financial position as 'Investments at amortised cost', 'Insurance receivables, contract receivables and other receivables' and 'Contract assets disclosed with 'Assets arising from contracts with customers'. Discovery has assessed these balances for expected credit losses and raised R83 million on balances outstanding at 1 July 2018. This opening adjustment, in accordance with IFRS, has been reflected in retained earnings.

Financial liabilities

No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk, which is required to be recognised in other comprehensive income for liabilities designated at fair value through profit or loss with limited exceptions. Discovery has not reclassified any financial liabilities.

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 or 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.

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. Performance obligations are those promised goods or services delivered to the customer per the contract in exchange for payment.

Discovery's revenue comprises primarily insurance premium revenue which is accounted for in terms of IFRS 4 *Insurance contracts*.

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.

A R6 million increase to the opening balance of retained earnings was processed, for a change in the timing of revenue recognition on several contracts. The impact was minimal as the majority of Discovery's non-insurance contracts transfers goods and render services within a short period. The disaggregation of revenue is disclosed in the segment report and in the income statement categories.

Effect of changes in IFRS 9 and IFRS 15 on date of initial application

At 1 July 2018

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**
Assets arising from contracts with customers	**–**	–	681	**681**
Financial assets				
– Available-for-sale investments	**7 547**	(7 547)	–	**–**
– Investments at fair value through profit or loss – Designated	**71 246**	(71 246)	–	**–**
– Investments at fair value through profit or loss – Mandatorily	**–**	77 393	–	**77 393**
– Investments at amortised cost[1]	**–**	1 400	–	**1 400**
– Insurance receivables, contract receivables and other receivables	**7 543**	(83)	6	**7 466**
Deferred tax asset	**1 968**	4	–	**1 972**
Equity	**–**	–	–	**–**
Other reserves	**1 280**	(208)	–	**1 072**
Retained earnings	**27 227**	129	6	**27 362**
Non-controlling interest	*****	–	–	*****
Liabilities				
Deferred revenue	**324**	–	(324)	**–**
Contract liabilities to customers	**–**	–	324	**324**

* *Amount is less than R500 000.*

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.*

Shareholder information

Directorate

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

- Mr R Enslin has tendered his resignation as a non-executive director effective 19 June 2019. His resignation followed his appointment as President of Google Cloud Services' Global Customer Operations.

As previously reported in interim results:

- 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 M Tucker has been appointed as independent non-executive Chairperson and Director of the Board, with effect from 1 March 2019.

Dividend and capital

Interim dividends paid in respect of the 2019 financial year

The following interim dividends were paid during the current period:

- B preference share dividend of 506.71233 cents per share (504.36986 cents net of dividend withholding tax), paid on 11 March 2019.
- Ordinary share dividend of 101 cents per share (80.8 cents net of dividend withholding tax), paid on 18 March 2019.

Final dividend declaration in respect of the 2019 financial year

B preference share cash dividend declaration:

On 29 August 2019, the directors declared a final gross cash dividend of 508.28767 cents (406.63014 cents net of dividend withholding tax) per B preference share for the period 1 January 2019 to 30 June 2019, 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, 17 September 2019
Shares commence trading "ex" dividend	Wednesday, 18 September 2019
Record date	Friday, 20 September 2019
Payment date	Monday, 23 September 2019

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 18 September 2019 and Friday, 20 September 2019, both days inclusive.

Ordinary share cash dividend declaration:

The directors declared a final gross cash dividend of 114 cents (91.2 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2019. 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, 1 October 2019
Shares commence trading "ex" dividend	Wednesday, 2 October 2019
Record date	Friday, 4 October 2019
Payment date	Monday, 7 October 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 2 October 2019 and Friday, 4 October 2019, both days inclusive.

Capital requirements

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, the Insurance Act 18 of 2017, and the related Prudential Standards were implemented in South Africa. Discovery Life and Discovery Insure are regulated under the Insurance Act, while VitalityHealth and VitalityLife are regulated under the European Solvency II regulatory regime, which was implemented from 1 January 2016.

Basis of preparation

The Group's summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements, and the requirements of the Companies Act of South Africa applicable to summary financial statements. The Listings Requirements require summarised reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 *Interim Financial Reporting*.

The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements, except for the new accounting standards as set out earlier in this report.

Audit

The summary consolidated financial statements are extracted from audited information, but are not audited. The annual financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon.

The audited annual financial statements and the auditor's report thereon are available for inspection at the Company's registered office, together with the financial statements identified in the respective auditor's reports.

The directors of Discovery take full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying annual financial statements.

EMBEDDED VALUE STATEMENT

for the year ended 30 June 2019

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 30 June 2019 embedded value results and disclosures were subjected to an external review.

Table 1: Group embedded value

R million	30 June 2019	30 June 2018	% change
Shareholders' funds	**43 083**	37 594	15
Adjustment to shareholders' funds from published basis[1]	**(32 690)**	(32 261)	
Adjusted net worth[2]	**10 393**	5 333	
Value of in-force covered business before cost of required capital	**63 862**	62 702	
Cost of required capital	**(3 038)**	(2 411)	
Discovery Limited embedded value	**71 217**	65 624	9
Number of shares (millions)	**656.6**	645.1	
Embedded value per share	**R108.46**	R101.73	7
Diluted number of shares (millions)	**657.6**	646.2	
Diluted embedded value per share[3]	**R108.30**	R101.56	7

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 R17.98/GBP (June 2018: R18.16/GBP):*

R million	*30 June 2019*	*30 June 2018*
Life net assets under insurance contracts	*(20 764)*	*(21 479)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(5 812)*	*(4 834)*
VitalityHealth financial reinsurance asset	*(2 315)*	*(1 898)*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(382)*	*(331)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(19)*	*(27)*
Goodwill relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(2 225)*	*(2 247)*
Intangible assets (net of deferred tax) in covered businesses	*(800)*	*(874)*
Net preference share capital	*(779)*	*(779)*
Reversal of 1 Discovery Place IAS 17 financial lease accounting	*406*	*208*
	(32 690)	*(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	*30 June 2019*	*30 June 2018*
Shareholders' funds	*43 083*	*37 594*
Adjustment to shareholders' funds	*(32 690)*	*(32 261)*
Adjusted net worth	*10 393*	*5 333*
Excess of available capital over adjusted net worth	*26 773*	*5 411*
Available capital	*37 166*	*10 744*
Required capital	*30 987*	*8 915*
Excess available capital	*6 179*	*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 June 2019 for Life is R21 724 million (June 2018: R1 732 million), for Health and Vitality is R909 million (June 2018: R840 million), for VitalityHealth is R2 350 million (June 2018: R2 133 million) and for VitalityLife is R6 004 million (June 2018: R4 210 million). For Life, the required capital was set equal to 1.25 times the SAM Pillar 1 Solvency Capital Requirement. 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.*

EMBEDDED VALUE STATEMENT continued

for the year ended 30 June 2019

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 30 June 2019			
Health and Vitality	**21 465**	**(394)**	**21 071**
Life and Invest[1]	**27 277**	**(1 177)**	**26 100**
VitalityHealth[2]	**7 840**	**(378)**	**7 462**
VitalityLife[2]	**7 280**	**(1 089)**	**6 191**
Total	**63 862**	**(3 038)**	**60 824**
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 429 million (June 2018: R1 317 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 R17.98/GBP (June 2018: R18.16/GBP).

Table 3: Group embedded value earnings

R million	Twelve months ended 30 June 2019	Twelve months ended 30 June 2018
Embedded value at end of period	**71 217**	65 624
Less: Embedded value at beginning of period	**(65 624)**	(57 294)
Increase in embedded value	**5 593**	8 330
Net change in capital[1]	**(1 839)**	(2)
Dividends paid	**1 481**	1 367
Transfer to hedging reserve	**175**	3
Employee share option schemes	**(33)**	(13)
Increase in treasury shares	**5**	–
Change in ownership[2]	**1 104**	–
IFRS transitional arrangements[3]	**73**	–
Embedded value earnings	**6 559**	9 685
Annualised return on opening embedded value	**10.0%**	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.

Table 4: Components of Group embedded value earnings

R million	Twelve months ended 30 June 2019 Net worth	Cost of required capital	Value of in-force covered business	Embedded value	Year ended 30 June 2018 Embedded value
Total profit from new business (at point of sale)	(4 627)	(302)	7 551	**2 622**	2 826
Profit from existing business					
■ Expected return	6 197	(50)	(147)	**6 000**	5 955
■ Change in methodology and assumptions[1]	4 669	(140)	(6 459)	**(1 930)**	787
■ Experience variances	(162)	(153)	334	**19**	305
Impairment, amortisation and fair value adjustment[2]	(37)	–	–	**(37)**	(54)
Increase in goodwill and intangibles	(244)	–	–	**(244)**	(246)
Other initiative costs[3]	868	–	46	**914**	(285)
Non-recurring expenses[4]	(3)	–	–	**(3)**	(30)
Acquisition costs[5]	(40)	–	1	**(39)**	(122)
Finance costs	(1 060)	–	–	**(1 060)**	(714)
Foreign exchange rate movements	(30)	18	(166)	**(178)**	1 016
Other[6]	76	–	–	**76**	(15)
Return on shareholders' funds[7]	419	–	–	**419**	262
Embedded value earnings	6 026	(627)	1 160	**6 559**	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 profits and 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. Included in this item for 30 June 2019 are once-off gains from the dilution of Discovery Insure's investment in Cambridge Mobile Telematics.

4 This item includes once-off costs relating to fees payable by Health.

5 Acquisition costs relate to commission paid on the 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.

EMBEDDED VALUE STATEMENT continued

for the year ended 30 June 2019

Table 5: Experience variances

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Renewal expenses	82	–	50	(8)	39	–	4	–	**167**
Lapses and surrenders[1]	17	31	(1)	(141)	–	200	(223)	12	**(105)**
Mortality and morbidity[2]	–	–	(320)	46	20	–	12	–	**(242)**
Policy alterations	–	62	(497)	416	–	–	(5)	(40)	**(64)**
Premium and fee income[3]	106	–	22	(254)	53	–	(43)	(25)	**(141)**
Economic[4]	(12)	(202)	104	(361)	–	–	–	–	**(471)**
Commission	–	–	–	–	(93)	–	–	–	**(93)**
Tax[5]	127	–	319	(268)	207	–	(44)	–	**341**
Reinsurance	–	–	–	–	(59)	–	(76)	111	**(24)**
Maintain modelling term[6]	–	363	–	189	–	54	–	–	**606**
Vitality benefits	12	–	–	–	–	–	(69)	–	**(57)**
Other	21	(1)	(28)	13	15	–	98	(16)	**102**
Total	353	253	(351)	(368)	182	254	(346)	42	**19**

1 *The lapse and surrender experience for VitalityLife relate to higher than expected cancellations from inception, premium write-offs due to lapses and commission write-offs due to broker default, partially offset by higher than expected commission claw back and favourable lapse variance on the IFRS reserves.*
2 *The mortality and morbidity experience for Life and Invest reflects a period of volatility in mortality claims, primarily as a result of a small number of large claims observed in the period.*
3 *The premium and fee income experience for Life arises largely due to the impact of Vitality status distribution shifts compared to expected levels.*
4 *The economic 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.*
5 *The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.*
6 *The projection term for Health and Vitality, Life and VitalityHealth at 30 June 2019 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 twelve months.*

Table 6: Methodology and assumption changes

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Modelling changes[1]	–	–	3 364	(3 026)	–	18	9	108	**473**
Expenses	–	(201)	(3)	(36)	–	–	–	–	**(240)**
Lapses[2]	–	–	–	(1 254)	–	–	(14)	(70)	**(1 338)**
Mortality and morbidity[3]	–	–	–	(444)	–	–	23	102	**(319)**
Benefit changes[4]	–	(32)	(3)	1 251	–	–	–	(121)	**1 095**
Tax[5]	–	–	–	(699)	–	–	–	–	**(699)**
Economic assumptions[6]	–	(899)	(94)	(727)	–	138	5	(88)	**(1 665)**
Premium and fee income[7]	–	–	–	1 198	–	–	(103)	(257)	**838**
Reinsurance[8]	–	–	1 255	(1 308)	–	(6)	–	–	**(59)**
Other[9]	–	–	(1)	(13)	–	–	231	(233)	**(16)**
Total	–	(1 132)	4 518	(5 058)	–	150	151	(559)	**(1 930)**

1 *For Life and Invest, the modelling change item relates to methodology changes associated with the implementation of SAM.*
2 *For Life and Invest, the lapses item relates to a realignment of lapse assumptions, as well as a short term basis strengthening.*
3 *For Life and Invest, the mortality and morbidity items reflects a revision of the Income Continuation Benefit incidence rates. For VitalityLife, the impact relates to a review of the Vitality status distribution assumptions used in determining the discounts rates applied to reinsurance rates and decrement assumptions.*
4 *For Life and Invest, the benefit changes item relates to a review of the Life product structure to align more closely with experience by various Health plans. For VitalityLife, the impact reflects an increase in the renewal expenses to allow for a contribution towards servicing costs related to the Vitality program.*
5 *For Invest, the tax item reflects the impact of the change to the new adjusted IFRS tax basis.*
6 *For Life, Invest, Health and Vitality the economic assumptions item relates to the impact of updating the assumptions relative to the publically available Prudential Authority nominal and real yield risk-free curves at 30 June 2019.*
7 *For Life and Invest, the premium and fee income item relates to a premium review on a legacy tranche of policies. For VitalityLife, the impact relates to a review of the Vitality status distribution assumptions used in determining average premium increases at policy anniversary.*
8 *For Life, the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.*
9 *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.*

Table 7: Embedded value of new business

R million	Twelve months ended 30 June 2019	30 June 2018	% change
Health and Vitality			
Present value of future profits from new business (at point of sale)	**832**	985	
Cost of required capital	**(27)**	(29)	
Present value of future profits from new business (at point of sale) after cost of required capital	**805**	956	(16)
New business annualised premium income[1]	**3 716**	4 086	(9)
Life and Invest			
Present value of future profits from new business (at point of sale)[2]	**1 242**	1 376	
Cost of required capital	**(82)**	(74)	
Present value of future profits from new business (at point of sale) after cost of required capital	**1 160**	1 302	(11)
New business annualised premium income[3]	**2 897**	2 773	4
Annualised profit margin[4]	**4.6%**	5.6%	
Annualised profit margin excluding Invest business	**10.2%**	10.7%	
VitalityHealth[5]			
Present value of future profits from new business (at point of sale)	**330**	263	
Cost of required capital	**(59)**	(44)	
Present value of future profits from new business (at point of sale) after cost of required capital	**271**	219	24
New business annualised premium income (Rand)[6]	**1 294**	1 161	11
Annualised profit margin[4]	**3.2%**	3.1%	
VitalityLife[7]			
Present value of future profits from new business (at point of sale)	**520**	407	
Cost of required capital	**(134)**	(58)	
Present value of future profits from new business (at point of sale) after cost of required capital	**386**	349	11
New business annualised premium income (Rand)	**995**	898	11
Annualised profit margin[4]	**5.0%**	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 30 June 2019.*
The total Health and Vitality new business annualised premium income written over the period was R6 801 million (June 2018: R6 735 million).

2 *Included in the Life and Invest embedded value of new business is R70 million (June 2018: R110 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 R2 897 million (June 2018: R2 773 million) (single premium APE: R1 321 million (June 2018: R1 195 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 R1 370 million (June 2018: R1 254 million) and servicing increases of R648 million (June 2018: R615 million), was R4 915 million (June 2018: R4 642 million) (single premium APE: R1 382 million (June 2018: R1 248 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 incepted 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 30 June 2019.*

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.*

EMBEDDED VALUE STATEMENT continued

for the year ended 30 June 2019

BASIS OF PREPARATION

Table 8: Embedded value economic assumptions

	30 June 2019	30 June 2018
Beta coefficient	**0.75**	0.75
Equity risk premium (%)	**3.5**	3.5
Risk discount rate (%)		
Health and Vitality[1]	**11.875**	12.155
Life and Invest[1]	**13.125**	12.875
VitalityHealth	**3.61**	4.02
VitalityLife	**4.725**	4.725
Rand/GB Pound exchange rate		
Closing	**17.98**	18.16
Average	**18.32**	17.33
Margin over Expense inflation to derive Medical inflation (%)		
South Africa	**3.00**	3.00
Expense inflation (%)		
South Africa[2] – Health and Vitality	**6.13**	6.91
– Life and Invest	**7.24**	7.48
United Kingdom	**3.00**	3.00
Pre-tax investment return (%)		
South Africa – Cash[1]	**9.00**	8.75
– Life and Invest bonds[3]	**10.50**	10.25
– Health and Vitality bonds[3]	**9.25**	9.53
– Equity[1]	**14.00**	13.75
United Kingdom – VitalityHealth investment return	**0.99**	1.40
– VitalityLife investment return	**2.10**	2.50
Income tax rate (%)		
South Africa	**28**	28
United Kingdom – long term[4]	**17**	17
VitalityHealth Assumptions		
– Margin (net of tax and cost of capital) (%)	**14.1**	14.1
– Annuity Factor	**6.13**	6.00
Projection term		
– Health and Vitality	**20 years**	20 years
– Discovery Life – ViF	**40 years**	40 years
– Group Life	**10 years**	10 years
– VitalityLife	**No cap**	No cap
– VitalityHealth[5]	**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 2019 to 2020, and 17% beyond that.
5 The VitalityHealth projection term of 20 years is used in the derivation of the Annuity Factor.

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 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 businesses, as can be seen in Table 1 note 2.

EMBEDDED VALUE STATEMENT continued

for the year ended 30 June 2019

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 30 June 2019 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

	Health and Vitality		
R million	Adjusted net worth[2]	Value of in-force	Cost of required capital
Base	10 393	21 465	(394)
Impact of:			
Risk discount rate +1%	10 393	20 200	(429)
Risk discount rate -1%	10 393	22 871	(355)
Lapses -10%	10 591	22 196	(414)
Interest rates -1%[1]	9 708	21 394	(379)
Equity and property market value -10%	10 353	21 465	(394)
Equity and property return +1%	10 393	21 465	(394)
Renewal expenses -10%	10 464	23 574	(365)
Mortality and morbidity -5%	10 574	21 465	(394)
Projection term +1 year	10 393	21 784	(399)

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

	Health and Vitality	
R million	Value of new business	Cost of required capital
Base	832	(27)
Impact of:		
Risk discount rate +1%	761	(30)
Risk discount rate -1%	911	(24)
Lapses -10%	888	(29)
Interest rates -1%[1]	839	(26)
Equity and property return +1%	832	(27)
Renewal expense -10%	949	(26)
Mortality and morbidity -5%	832	(27)
Projection term +1 year	850	(28)
Acquisition costs -10%	858	(27)

1 *All economic assumptions were reduced by 1%.*

	Life and Invest		VitalityHealth		VitalityLife			
	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Value of in-force	Cost of required capital	Embedded value	% change
	27 277	(1 177)	7 840	(378)	7 280	(1 089)	**71 217**	
	24 656	(1 129)	7 439	(359)	6 829	(1 302)	**66 298**	(7)
	30 387	(1 232)	8 283	(399)	7 796	(790)	**76 954**	8
	29 572	(1 262)	8 838	(426)	7 803	(1 248)	**75 650**	6
	28 021	(1 221)	8 150	(399)	7 403	(1 688)	**70 989**	–
	26 839	(1 209)	7 886	(378)	7 280	(1 089)	**70 753**	(1)
	27 595	(1 186)	7 840	(378)	7 280	(1 089)	**71 526**	–
	27 740	(1 140)	8 465	(378)	7 371	(1 022)	**74 709**	5
	29 157	(1 011)	9 055	(378)	7 432	(1 047)	**74 853**	5
	27 440	(1 179)	7 893	(381)	7 280	(1 088)	**71 743**	1

	Life and Invest		VitalityHealth		VitalityLife			
	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	% change
	1 242	(82)	330	(59)	520	(134)	**2 622**	
	947	(79)	250	(55)	388	(152)	**2 030**	(23)
	1 592	(86)	418	(63)	669	(102)	**3 315**	26
	1 523	(88)	469	(65)	689	(177)	**3 210**	22
	1 321	(85)	399	(63)	553	(235)	**2 703**	3
	1 271	(82)	330	(59)	520	(134)	**2 651**	1
	1 287	(79)	419	(59)	545	(125)	**2 911**	11
	1 355	(70)	503	(59)	564	(124)	**2 974**	13
	1 258	(82)	339	(59)	520	(134)	**2 664**	2
	1 388	(82)	363	(59)	632	(103)	**2 970**	13

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

Secretary and registered office MJ Botha, Discovery Limited
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(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
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* *Executive.*
1 *Retired effective 28 February 2019.*
2 *Appointed effective 1 March 2019.*
3 *Resigned effective 19 June 2019.*
4 *Resigned effective 11 October 2018.*
5 *Retired 31 August 2018.*

Annual financial results
– prepared by L van Jaarsveldt CA(SA) and A Nel CA(SA)
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Embedded value statement
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