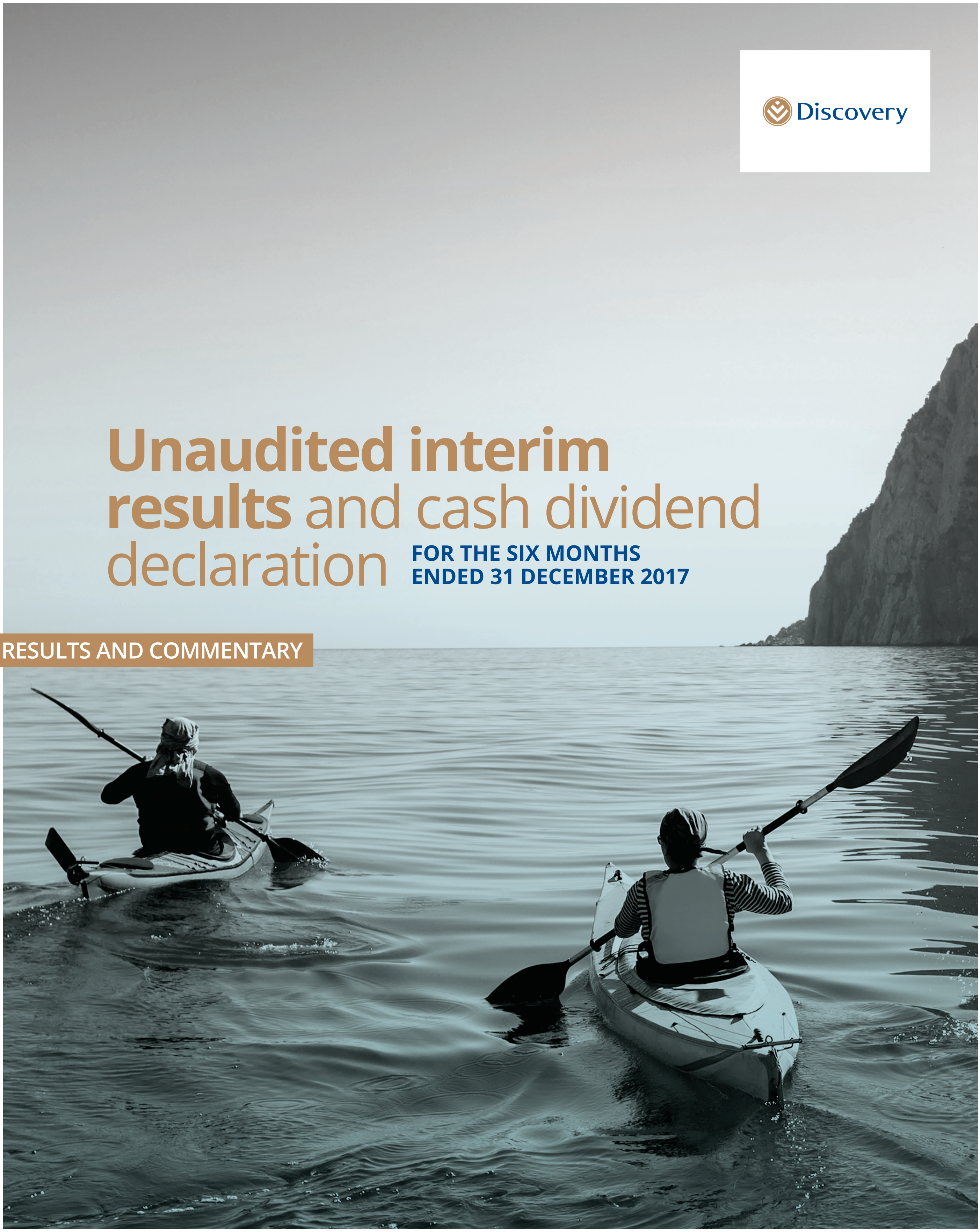


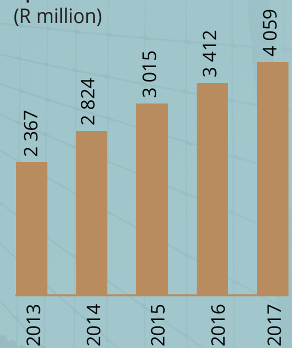
Unaudited interim results and cash dividend declaration

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

RESULTS AND COMMENTARY

NORMALISED PROFIT FROM OPERATIONS
△19% TO
R4 059 MILLION

Normalised profit from operations
(R million)

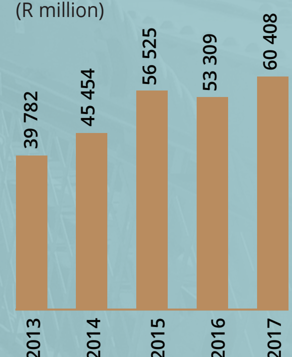


Core new business API
(R million)

CORE NEW BUSINESS ANNUALISED PREMIUM INCOME (API)
△16% TO
R9 303 MILLION

EMBEDDED VALUE
△13% TO
R60.4 BILLION

Embedded value
(R million)



Commentary

STRONG GROUP PERFORMANCE AND ACCELERATION TOWARDS 2018 AMBITION

Discovery's performance over the six months ended 31 December 2017 exceeded expectation, enabling it to track strongly towards its stated 2018 Ambition. Normalised operating profit increased by 19% to R4 059 million; normalised headline earnings increased by 30% to R2 829 million; and core new business Annualised Premium Income (API) (which excludes Discovery Health's take-on of new closed medical schemes and gross revenue of Vitality Group) increased by 16% to R9 303 million. The Embedded Value grew by 13% on an annualised basis to R60.4 billion.

Over the period, the Group continued to make substantive progress against all three Ambition criteria:

1) **Financial and social impact,** targeting R10 billion in normalised profit from operations, with growth of CPI + 10%; return on capital of risk-free + 10%; and making 10 million people around the world healthier.

2) **A unique foundation,** comprising a sophisticated data and science capability; an aspirational global Vitality brand; exceptional talent, particularly in terms of critical skills; and an entrenched values-based culture.

3) **Brilliant businesses** that are 1) insurgent in their markets; 2) offer sustainable products that meet complex consumer needs; 3) generate excellent member engagement; 4) deliver superior actuarial dynamics; and 5) offer an exceptional service ecosystem.

In terms of **financial impact**, the Group surpassed its growth methodology targets. The established businesses delivered combined growth in operating profit of 15% – well above the guidance of CPI + 5%; the emerging businesses exceeded their target of CPI + 30%, and 8% of earnings was invested in new initiatives, including Discovery Bank, Umbrella Funds, Vitality Invest, and Discovery Insure Commercial Insurance – all of which are within budget and on track for launch in 2018.

The Group also continued to meet the requirements of its capital allocation model in terms of solvency capital, allocated capital, and maintaining an above-guidance buffer of R2.5 billion as at 31 December 2017. During the period, Discovery came to market for its inaugural Domestic Medium Term Note issuance to diversify its funding sources, and this was oversubscribed. The Financial Leverage Ratio (FLR) as at 31 December 2017 was 26.5%, remaining below the limit of 28%.

The third tier of Discovery's operating model is its cash management approach. The Group generated R6.1 billion in cash, and after payment of tax, dividends and interest on debt, invested R3.8 billion in new business and R1.1 billion in new initiatives. Both these investments meet the criteria of risk-free + 10%, validating the approach to continue to invest significantly without breaching the FLR or cash buffer.

The above financial performance illustrates how the 2018 Ambition has been instrumental in framing and driving financial outcomes and scale since 2013. During the currency of the Ambition, sizeable businesses (Discovery Invest, VitalityLife and VitalityHealth) moved into the established category; high-potential businesses (Discovery Insure, Ping An Health and Vitality Group) became emerging; and ongoing investment took place in new ventures to ensure a pipeline for future growth.

Discovery's **unique foundation** and Shared-Value Insurance model – the manifestation of its core purpose – continued to create competitive advantage across markets, in spite of economic complexity and volatility. Considerable investment took place through the Global Vitality Network (GVN), ensuring repeatability and scalability across adjacencies and geographies. Among the GVN's activities and initiatives, three notable developments include:

Firstly, from an architecture perspective, progress was made towards a universal behavioural platform through a common status and points currency that manifests in a simple, digital user journey based on Active Rewards. This is being powered by a configurable global technology platform – Vitality One – currently tracking over 1 000 activities and 50 biometric readings every minute.

Secondly, Vitality Active Rewards with Apple Watch continued to exemplify Discovery's sophisticated data and science asset, leveraging the Group's two decades of expertise in behaviour change to drive powerful changes in risk and lifestyle. Vitality members using the Apple Watch benefit across SA, the UK and the US have shown consistent and sustained increases in engagement and behaviour change (35% – 100% more active following take-up of benefit; 22% – 63% more active in the long run).

Thirdly, as an evolution of its healthy ageing agenda, Discovery completed work to quantify the most influential interventions that extend life and quality of life at older ages, and this is being consolidated into a sophisticated wellness product. In addition, these insights are being used to shape a retirement planning proposition incorporating financial security and wellness; with learnings being applied to Vitality Invest's impending launch in the UK.

Finally, the **businesses** continued to make progress against their Group-set performance measures.

PERFORMANCE OF ESTABLISHED BUSINESSES

Discovery Health

Discovery Health delivered excellent results for the period to 31 December 2017, with normalised operating profit increasing by 12% to R1 332 million; new business API increasing by 10% to R3 324 million (excluding take-on of new closed schemes); and lives under management reaching 3.44 million. Discovery Health Medical Scheme (DHMS) also performed excellently, announcing a highly-competitive contribution increase of 7.9%.

Discovery Health's ongoing investment in risk management assets and systems ensured that DHMS ended the calendar year with a surplus of R2.45 billion, taking solvency to 27.45% of gross contributions – well above the statutory level of 25%. DHMS is now in the strongest financial position in its history, with membership of 2.78 million lives at year-end. Discovery Health is also creating ongoing value for its schemes – in 2016 alone, Discovery Health saved DHMS R6.2 billion through its managed care initiatives and Vitality programme, equating to 14% savings in risk claims.

Over the period, Discovery Health continued to grow its restricted medical scheme client base, now at 18 with over 660 000 lives under management. Immediately following the review period, Discovery Health was awarded the tender for BP Medical Aid Society, to be administered by DH from 1 July 2018.

Discovery Health has made significant investments in initiatives aimed at maintaining and improving the quality of care, including programmes tailored to members with diabetes, heart disease, kidney failure and those undergoing joint replacement surgery – all with demonstrative outcomes. In addition, Discovery Health's investment in technology and expertise to address medical scheme fraud led to recoveries of over R538 million for its client medical schemes during the 2017 calendar year. The business also made significant new investments in big data analytics and artificial intelligence capabilities.

Finally, several innovative changes were developed for the 2018 DHMS and Discovery Health launch. These included benefit changes to enhance cover for young families; extending the Vitality programme to lower-income segments; and introducing a fully-integrated corporate health offering.

Discovery Health maintains its strong support for the objectives of the proposed National Health Insurance (NHI), and continues to work closely with the National Department of Health and other stakeholders to ensure optimal outcomes of the NHI policy process. Discovery Health also continues to participate actively in the processes of the Health Market Inquiry of the Competition Commission, which is expected to report its findings in the latter half of 2018.

Discovery Life

Over the period, Discovery Life continued to utilise the Shared-Value Insurance model to maintain its market-leading position. New business API increased by 6% to R1 121 million and earnings increased by 4% to R1 839 million, despite the impact of claims volatility. Market share increased to 27.5%[1] in the retail affluent protection segment, while the value of new business grew by 11%, reflecting a continued focus on quality of new business.

The second quarter of the financial year saw a rapid acceleration in new business, driven by the annual product launch, with Individual new business increasing by 7% compared with the same quarter in the prior year. The launch of the new Global Education Protector, Vitality Purple and the Purple Plan range has been very well received. Annual premiums collected exceeded R10 billion for the first time.

The higher-than-expected claims experience was due primarily to a small, but increased, number of large non-natural deaths and claims. Apart from this, the business delivered positive experience variances across both expenses and lapses, with policy lapses at 87% of expectation, emphasising the value of integration.

The clinical refinement of the Vitality points structure, which was accelerated over the period, has resulted in strong health behaviour change, as clients strive to maintain their integration benefits (PayBacks of R511 million were paid to policyholders) – demonstrating the efficacy of the Shared-Value Insurance model. This is further validated by an independent reinsurance report showing a distinction between Discovery Life's population and the rest of the industry.

Discovery Life remains well-capitalised at 3.8x CAR and generated cash of R1.9 billion (including Discovery Invest) from the inforce book over the period (before reinsurance and acquisition-related costs). It invested the majority of this in new business growth, ending in a net cash generation of R354 million.

1 NMG Life Insurance New Sales Report Q1-Q4 2017.

Discovery Invest

The business performed strongly over the period. While new business decreased by 5%, reflecting an environment of weakened inflows, Discovery Invest's net flows grew by 20% to R3.3 billion. Its gross LISP flows market share increased from 4.3% to 5.2% for the six months compared to the same prior period. Operating profit grew 29% to R419 million, driven by growth in assets under administration of 22% to R77.8 billion, with 77% of linked funds in Discovery funds, and an improvement in the value of new business since June 2017.

The Discovery Balanced Fund continued to perform well and remains in the top 10 retail flow taking SA Unit Trusts in each quarter for the past two years. In the PlexCrown Ratings, a widely-quoted unit trust rating agency in SA, Discovery Invest climbed from 12th to 4th place (out of 17) in the final quarter of 2017 – Discovery's highest rating to date.

The recent product launch saw the introduction of investment offerings tailored to specific client segments. This included a more accessible product for younger clients; an enhanced offering for clients who reinvest their Discovery Life cash back; and a Purple range with unique benefits targeted to high net worth clients.

Discovery Card

The Discovery Card business exceeded expectation. Profits for the Discovery Card JV with FNB grew by 16% to R207 million and revenue increased by 7% to R500 million.

Discovery's credit card base is less sensitive to negative market conditions due to a substantially better risk profile. The credit loss ratio to advances was 1.5% compared to the market average of 6% for tier 1 credit providers. Over the period, turnover spend on the Discovery Card was up 4.6% and advances were up 3.8%.

Vitality UK

Discovery's UK business, comprising VitalityLife and VitalityHealth, continued to deliver robust results during the period under review. Combined new business sales grew 6% to a record £61.0 million (R1 079 million); and operating profit grew 55% to £35 million (R616 million). Insured lives exceed one million members.

The UK business continued its strategic development, with significant investment made to enhance the resonance and reach of the Vitality brand; the adoption and impact of Vitality; the relevance of the product construct to members given emerging risk profiles and needs; the move towards greater digitisation and use of self-servicing channels; and to more extensively deliver the composite Discovery model in the UK.

Significant progress was made in each of these areas. Prompted brand awareness reached nearly 50%, accompanied by significant growth in business derived through direct channels; and engagement in Vitality increased by 58% to over 30 million activities in the 2017 calendar year. The business launched Vitality Kids in partnership with Disney, a new Healthy Mind component of Vitality, and new digital platforms. Finally, Vitality UK received regulatory approval for the launch of a long-term savings business during 2018, which will leverage behavioural learnings from the UK, as well as the experience of Discovery Invest in South Africa.

VitalityLife

VitalityLife showed a resilient half-year performance with normalised operating profit increasing by 2% to £14.8 million – a positive result considering the low interest rate environment and negative impact of higher-than-expected lapses. New business sales were £31.5 million, 4% lower than the comparative prior year volumes. VitalityLife has reconfigured and priced its business for a low-interest-rate environment, with a focus on Term products and Vitality integration. As a result, sales performance picked up strongly in the second quarter of the financial year.

The fundamentals of the VitalityLife business remained strong over the period, with claims ratios below expectation (both gross and net of reinsurance). The steady and continued adoption of the Vitality Shared-Value Insurance model (Vitality-linked products comprise approximately 73% of new business), has been a key driver of the increasing value of new business margin, which improved to 49% (compared with an H1 2017 margin of 36%). VitalityLife's continued product innovation saw a drive towards more capital-efficient products with a focus on business mix.

VitalityHealth

VitalityHealth recorded an excellent half-year performance across new business, claims, loss ratio and operating profit. New business was 18% higher than the prior period, at £29.5 million, with continued strong growth in the more profitable individual (+14%) and SME (+13%) markets. Operating profit of £20.1 million was up from £8 million for the comparative period in the prior year, on the back of a continuing strong loss ratio and tight control of operating expenses. The business was also strongly cash flow positive, generating £47.7 million of cash from the inforce book, relative to acquisition costs of £21.8 million, resulting in a net cash position of £25.9 million for the six months.

Notably, there was a significant improvement in the quality of business both written and retained. This was driven by greater sophistication in the application of the value over volume approach; the impact of Vitality on member selection; and targeted retention strategies. In addition, claims performed well as a result of the combined effect of the improved risk profile of new business; sophisticated care pathways that enhance member experience and quality of care, at reduced cost per claim; and increased levels of wellness engagement that have resulted in a reduction in member risk across the book.

In addition, the business continued to invest in digital assets essential to achieving service ambitions, including sophisticated machine learning techniques in sales and retention. These investments will ensure the business keeps up with changing member demands, removes barriers to engagement and creates cost efficiencies across service operations.

PERFORMANCE OF EMERGING BUSINESSES

Discovery Insure

Discovery Insure delivered a profit of R29 million for the six months, with Gross Premium Income growing 30% to R1.3 billion, and new business increasing by 22% with R495 million in API written in the period. The business is also growing at five times the rate of the South African short-term insurance industry growth rate.

The excellent performance over the period was driven by the continued progress of the Vitality Shared-Value Insurance model, as well as management efficiencies. Premium income growth continued to exceed total claims plus expenses growth, leading to the strong emergence of operating profit.

Offering a competitive premium, telematics and exceptional rewards for good driving behaviour has resulted in: 1) selection of better risks; 2) behaviour change, with a significant improvement in driver scores; 3) lower claims frequency and severity; and 4) selective lapsation, evidenced by a shift to higher driver scores over time. This has culminated in a low loss ratio and appealing value of new business, leading to the existing Discovery Insure book (excluding the impact of new business) producing R99 million in profit over the six months.

Discovery Insure has codified its model and data asset (with over 200 000 clients insured as at February 2018 and more than six billion kilometres of driving data). The business is exploring the opportunity to extend the model into the commercial and fleet insurance market in 2018, as well as into international markets as an extension of the Global Vitality Network.

Vitality Group

Vitality Group produced strong results, with significant growth in Insurance Partner Markets, and Vitality membership growing by 49% to over 1.7 million. The business has broken even in its own right, with operating profit of $0.1 million, largely driven by new business growth of insurance partners and efficiencies gained from merging the US and SA international operations. Vitality Group is also investing substantially in the Vitality One Platform, which will enable accelerated rollout of innovation across the world.

The financial dynamics of Vitality Group involve a largely fixed cost base and rapidly-growing fee income from insurance partners (up 39% over the half-year). This gives Discovery confidence that Vitality Group will reach its target of achieving R300 million to R500 million operating profit (including Ping An Health) in two to four years' time.

There have been substantial efforts to develop partnerships with additional insurers in Latin America, Europe and Asia, under Vitality Group's partnership with Hannover Re. There is a strong pipeline of insurers at different stages of the sales process. Vitality Group has already concluded one new partnership with a launch planned before the end of FY2018, and aims to conclude another partnership in the same timeframe.

AIA Vitality

AIA had record sales with a profound increase in membership, which grew by 63%, and engagement in Vitality by 12%. Revenue from AIA integrated products increased by 18% and some AIA markets now offer more than twice the number of integrated products compared to a year ago.

Generali

Generali continued to see strong sales, positive media reaction and high client engagement in Germany, France and Austria. Over the period Annualised Premium Equivalent grew by 8%, total membership grew by 45%, and engagement grew by 5%. Substantial growth is expected following the January launch of Vitality to the Deutsche Vermögensberatung network in Germany, which services six million clients.

John Hancock and Manulife

These businesses produced a strong result, with API growing 26% over the period; membership up 160%; and a notable increase in engagement after the launch of the Apple Watch benefit.

Vitality USA

The corporate wellness business performed well during the period, contributing $1 million to Vitality Group profits. As Vitality USA continues to create value for US employers by improving employee health promotion, it is also focused on expanding its future customer base beyond employers, by investigating opportunities to serve other stakeholders interested in incentivising health and wellness behaviours among consumers.

Ping An Health

Ping An Health (PAH) continued to perform exceptionally over the six months, with membership growing by 60% from 1 July 2017. Discovery's interest in PAH is now profitable, with operating profit of R36 million (an increase of 500%) for the period. This substantial growth was driven by the success of e-Sheng Bao (high deductible health cover sold largely online), which contributed more than 68% of the R2 billion in new business volumes during the period. Ping An Health's distribution model with the Ping An Group (PAG) is changing as PAH leverages its reinsurance licence to participate directly in sales, enabling it to access PAG's full distribution network. This will result in higher new business strain as the reinsured book builds.

The opportunity in China is compelling, with private health insurance set to grow substantially given the underdeveloped market; favourable government policies; and demographic trends, including an ageing society. Ping An Health is set to take advantage of this opportunity, with access to a massive distribution network throughout Ping An, and a segmented product suite consisting of internet, Group high-end, and intermediate offerings. Ping An Health is also prioritising product development, operations and technology capabilities, while PAG is investing heavily in broader healthcare assets, which will work in harmony with PAH. Discovery continues to support PAH through its health insurance expertise.

Furthermore, PAH is growing its own distribution channels to sustain this rapid growth. In support of this, it opened two branches during the period, collectively covering a population of almost 20 million people, with plans to open two additional branches during the first half of 2018.

Vitality continues to gain traction throughout Ping An. The membership of Vitality Active Rewards within Ping An Life passed the three-million-member mark within 14 months of launching. There are now more Vitality members in China than any country where Vitality is present.

NEW INITIATIVES

Discovery Bank

On 16 October 2017, Discovery Bank was granted a banking licence from the Registrar of Banks in terms of the Banks Act, Act No. 94 of 1990 and the South African Reserve Bank (SARB) subsequently published in the Government Gazette, on Friday 10 November 2017, the granting of a banking licence to Discovery Bank.

As previously announced, the licence is subject to certain conditions imposed by the Registrar relating to the shareholding in Discovery Bank. Shareholders of the Bank are currently in discussions to agree how best to manage these conditions. The proposed purchase of the Discovery-branded FirstRand Bank-issued credit card business and book is subject to Competition Commission approval. The outcome of the above-mentioned discussions may also potentially impact this approval.

Over the six-month period, management worked alongside regulators and industry associations to obtain the required licences and perform associated testing. The support of these regulatory and industry bodies enabled Discovery Bank to build and demonstrate compliance in parallel with obtaining a bank licence. The alternative would have required obtaining a licence and only thereafter being eligible to join the various fora and prove capability. This would have resulted in considerable extra time and costs.

In addition to its banking licence, Discovery Bank has received the following licences/ memberships:

- National Credit Act (NCA), which facilitates the advancement of credit to the public.
- SAMOS (South African Multiple Options Settlement), which allows Discovery Bank to settle transactions with other banks within South Africa; and enables it to be a settlement bank from date of launch.
- SWIFT (Society of Worldwide Interbank Financial Telecommunication), which allows Discovery Bank to transact on the SAMOS systems with the SARB.
- PASA (Payments System of South Africa), reflecting that the business is able to conform to the rules and conventions necessary to process specified payments, e.g. EFT transactions, debit orders.
- Visa Principal Issuer licence, with Discovery Bank receiving its globally unique six-digit BIN-number for both credit and debit cards.
- 'Restricted Authorised Dealer in Foreign Exchange' granted by the Financial Surveillance Department of the SARB Exchange Control.

Discovery Bank is testing its capabilities with live testing of system infrastructure, operating processes and regulatory engagement. Discovery will launch its proposed banking offering to the public during 2018. Spend to date is R1.2 billion and this is expected to reach R1.5 billion by launch.

PROSPECTS FOR GROWTH

Prospects for continued growth are compelling. Discovery's established businesses are all well positioned in their respective markets, its emerging businesses are insurgent, and four substantial businesses will be launched during 2018. This gives the Group confidence of ongoing growth and performance into the future.

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

On behalf of the Board

MI HILKOWITZ	**A GORE**
Chairperson	Group Chief Executive

Sandton
19 February 2018

STATEMENT OF FINANCIAL POSITION

at 31 December 2017

R million	Group December 2017 Unaudited	Group June 2017 Audited
ASSETS		
Assets arising from insurance contracts	**39 687**	37 691
Property and equipment	**3 967**	1 210
Intangible assets including deferred acquisition costs	**5 615**	5 096
Goodwill	**2 060**	2 107
Investment in equity accounted investments	**1 045**	979
Financial assets		
– Available-for-sale investments	**7 565**	7 298
– Investments at fair value through profit or loss	**66 836**	58 948
– Derivatives	**876**	392
– Loans and receivables including insurance receivables	**7 117**	6 470
Deferred income tax	**1 819**	1 337
Current income tax asset	**27**	34
Reinsurance contracts	**278**	263
Cash and cash equivalents	**9 771**	9 098
Total assets	**146 663**	130 923
EQUITY		
Capital and reserves		
Ordinary share capital and share premium	**8 306**	8 306
Perpetual preference share capital	**779**	779
Other reserves	**244**	346
Retained earnings	**24 883**	22 859
	34 212	32 290
Non-controlling interest	*****	*
Total equity	**34 212**	32 290
LIABILITIES		
Liabilities arising from insurance contracts	**57 813**	52 477
Liabilities arising from reinsurance contracts	**7 536**	6 746
Financial liabilities		
– Negative reserve funding	**195**	847
– Borrowings at amortised cost	**12 429**	8 524
– Investment contracts at fair value through profit or loss	**17 108**	14 867
– Derivatives	**136**	135
– Trade and other payables	**8 783**	7 369
Deferred income tax	**7 757**	6 963
Deferred revenue	**293**	291
Employee benefits	**224**	191
Current income tax liability	**177**	223
Total liabilities	**112 451**	98 633
Total equity and liabilities	**146 663**	130 923

* *Amount is less than R500 000.*

INCOME STATEMENT

for the six months ended 31 December 2017

R million	Group Six months ended December 2017 Unaudited	Group Six months ended December 2016 Unaudited	% change	Group Year ended June 2017 Audited
Insurance premium revenue	**17 758**	16 652		33 533
Reinsurance premiums	**(2 127)**	(1 949)		(3 837)
Net insurance premium revenue	**15 631**	14 703	6	29 696
Fee income from administration business	**4 477**	4 002		8 372
Vitality income	**2 199**	2 129		4 267
Investment income	**446**	392		758
– investment income earned on shareholder investments and cash	**117**	62		150
– investment income earned on assets backing policyholder liabilities	**329**	330		608
Net realised gains on available-for-sale financial assets	**8**	5		8
Net fair value gains on financial assets at fair value through profit or loss	**4 806**	172		2 108
Net income	**27 567**	21 403	29	45 209
Claims and policyholders' benefits	**(9 767)**	(9 388)		(19 237)
Insurance claims recovered from reinsurers	**1 366**	1 436		2 816
Recapture of reinsurance	**–**	(882)		(858)
Net claims and policyholders' benefits	**(8 401)**	(8 834)		(17 279)
Acquisition costs	**(2 846)**	(2 703)		(5 237)
Marketing and administration expenses	**(8 449)**	(7 707)		(15 652)
Amortisation of intangibles from business combinations	**(63)**	(87)		(171)
Recovery of expenses from reinsurers	**1 237**	1 999		2 985
Net transfer to/from assets and liabilities under insurance contracts	**(4 031)**	(987)		(3 362)
– change in assets arising from insurance contracts	**2 278**	2 629		5 346
– change in assets arising from reinsurance contracts	**21**	(132)		(109)
– change in liabilities arising from insurance contracts	**(5 442)**	(2 537)		(6 625)
– change in liabilities arising from reinsurance contracts	**(888)**	(947)		(1 974)
Fair value adjustment to liabilities under investment contracts	**(1 155)**	165		(248)
Profit from operations	**3 859**	3 249	19	6 245
Finance costs	**(390)**	(232)		(478)
Foreign exchange losses	**(17)**	(17)		(21)
Share of net profits from equity accounted investments	**82**	16		26
Profit before tax	**3 534**	3 016	17	5 772
Income tax expense	**(837)**	(947)	12	(1 278)
Profit for the period	**2 697**	2 069	30	4 494
Profit attributable to:				
– ordinary shareholders	**2 656**	2 028	31	4 411
– preference shareholders	**41**	41		83
– non-controlling interest	*****	*		*
	2 697	2 069	30	4 494
Earnings per share for profit attributable to ordinary shareholders of the company during the period (cents):				
– undiluted	**411.7**	314.8	31	684.2
– diluted	**411.5**	314.4	31	683.6

* *Amount is less than R500 000.*

STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2017

R million	Group Six months ended December 2017 Unaudited	Group Six months ended December 2016 Unaudited	% change	Group Year ended June 2017 Audited
Profit for the period	**2 697**	2 069	30	4 494
Items that are or may be reclassified subsequently to profit or loss:				
Change in available-for-sale financial assets	**27**	(7)		17
– unrealised gains/(losses)	**54**	(11)		32
– capital gains tax on unrealised (gains)/losses	**(21)**	8		(9)
– realised gains transferred to profit or loss	**(8)**	(5)		(8)
– capital gains tax on realised gains	**2**	1		2
Currency translation differences	**(315)**	(1 646)		(1 575)
– unrealised losses	**(321)**	(1 657)		(1 581)
– tax on unrealised losses	**6**	11		6
Cash flow hedges	**205**	(78)		33
– unrealised gains/(losses)	**393**	(7)		159
– tax on unrealised (gains)/losses	**(71)**	2		(25)
– gains recycled to profit or loss	**(140)**	(86)		(123)
– tax on recycled gains	**23**	13		22
Share of other comprehensive income from equity accounted investments	**(24)**	(41)		(58)
– change in available-for-sale financial assets	**(4)**	(1)		(1)
– currency translation differences	**(20)**	(40)		(57)
Other comprehensive losses for the period, net of tax	**(107)**	(1 772)		(1 583)
Total comprehensive income for the period	**2 590**	297	772	2 911
Attributable to:				
– ordinary shareholders	**2 549**	256	896	2 828
– preference shareholders	**41**	41		83
– non-controlling interest	*****	*		*
Total comprehensive income for the period	**2 590**	297	772	2 911

* *Amount is less than R500 000.*

HEADLINE EARNINGS

for the six months ended 31 December 2017

R million	Group Six months ended December 2017 Unaudited	Group Six months ended December 2016 Unaudited	% change	Group Year ended June 2017 Audited
Normalised headline earnings per share (cents):				
– undiluted	**438.5**	339.0	29	722.2
– diluted	**438.3**	338.6	29	721.5
Headline earnings per share (cents):				
– undiluted	**426.1**	314.0	36	683.1
– diluted	**425.8**	313.7	36	682.5
The reconciliation between earnings and headline earnings is shown below:				
Net profit attributable to ordinary shareholders	**2 656**	2 028		4 411
Adjusted for:				
– gain on disposal of property and equipment net of tax	**–**	(1)		(1)
– impairment of intangible assets net of tax	**99**	–		–
– realised gains on available-for-sale financial assets net of CGT	**(6)**	(4)		(6)
Headline earnings	**2 749**	2 023	36	4 404
– accrual of dividends payable to preference shareholders	**–**	(1)		(1)
– amortisation of intangibles from business combinations net of deferred tax	**55**	78		154
– duplicate building costs	**25**	–		–
– rebranding and business acquisitions expenses	**–**	84		99
Normalised headline earnings	**2 829**	2 184	30	4 656
Weighted number of shares in issue (000's)	**644 986**	644 350	–	644 651
Diluted weighted number of shares (000's)	**645 344**	645 080	–	645 236

STATEMENT OF CHANGES IN EQUITY

at 31 December 2017

R million (unaudited)	Attributable to equity holders of the Company		
	Share capital and share premium	Preference share capital	Share-based payment reserve
Period ended 31 December 2017			
At beginning of the period	**8 306**	**779**	**314**
Total comprehensive income for the period	**–**	**41**	**–**
Profit for the period	**–**	**41**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**–**	**(41)**	**5**
Employee share option schemes:			
– Value of employee services	**–**	**–**	**5**
Dividends paid to preference shareholders	**–**	**(41)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of the period	**8 306**	**779**	**319**
Period ended 31 December 2016			
At beginning of the period	8 300	779	319
Total comprehensive income for the period	–	41	–
Profit for the period	–	41	–
Other comprehensive income	–	–	–
Transactions with owners	10	(41)	9
Increase in treasury shares	(1)	–	–
Delivery of treasury shares	11	–	–
Share buy-back	*	–	–
Employee share option schemes:			
– Value of employee services	–	–	9
Dividends paid to preference shareholders	–	(41)	–
Dividends paid to ordinary shareholders	–	–	–
At end of the period	8 310	779	328

1 This relates to the fair value adjustments of available-for-sale financial assets.
** Amount is less than R500 000.*

Discovery

Attributable to equity holders of the Company						
Available-for-sale investments[1]	Translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
180	**(147)**	**(1)**	**22 859**	**32 290**	*	**32 290**
23	**(335)**	**205**	**2 656**	**2 590**	*	**2 590**
–	**–**	**–**	**2 656**	**2 697**	*	**2 697**
23	**(335)**	**205**	**–**	**(107)**	*	**(107)**
–	**–**	**–**	**(632)**	**(668)**	**–**	**(668)**
–	**–**	**–**	**–**	**5**	**–**	**5**
–	**–**	**–**	**–**	**(41)**	**–**	**(41)**
–	**–**	**–**	**(632)**	**(632)**	**–**	**(632)**
203	**(482)**	**204**	**24 883**	**34 212**	*	**34 212**
164	1 485	(34)	19 594	30 607	*	30 607
(8)	(1 686)	(78)	2 028	297	*	297
–	–	–	2 028	2 069	*	2 069
(8)	(1 686)	(78)	–	(1 772)	*	(1 772)
–	–	–	(591)	(613)	–	(613)
–	–	–	–	(1)	–	(1)
–	–	–	(11)	–	–	–
–	–	–	–	*	–	*
–	–	–	–	9	–	9
–	–	–	–	(41)	–	(41)
–	–	–	(580)	(580)	–	(580)
156	(201)	(112)	21 031	30 291	*	30 291

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2017

R million	Group Six months ended December 2017 Unaudited	Group Six months ended December 2016 Unaudited	Group Year ended June 2017 Audited
Cash flow from operating activities	**1 736**	(2 140)	(832)
Cash generated by operations	**5 034**	4 666	9 672
Net purchase of investments held to back policyholder liabilities[1]	**(3 697)**	(3 205)	(7 084)
Working capital changes	**236**	(3 884)	(4 146)
	1 573	(2 423)	(1 558)
Dividends received	**92**	61	197
Interest received	**1 007**	896	1 711
Interest paid	**(307)**	(214)	(437)
Taxation paid	**(629)**	(460)	(745)
Cash flow from investing activities	**(1 613)**	(82)	15
Net (purchase)/disposal of financial assets[2]	**(283)**	682	2 125
Purchase of equipment	**(426)**	(224)	(239)
Proceeds from the sale of property and equipment	**1**	2	5
Purchase of intangible assets	**(885)**	(399)	(1 353)
Proceeds from the sale of intangible assets	**–**	–	7
Increase in investment in equity accounted investments	**(20)**	(143)	(530)
Cash flow from financing activities	**566**	763	1 913
Share buy-back	**–**	*	*
Dividends paid to ordinary shareholders	**(632)**	(581)	(1 152)
Dividends paid to preference shareholders	**(41)**	(41)	(83)
Increase in borrowings	**1 655**	1 548	3 514
Repayment of borrowings	**(416)**	(163)	(366)
Net increase/(decrease) in cash and cash equivalents	**689**	(1 459)	1 096
Cash and cash equivalents at beginning of period	**9 097**	8 614	8 614
Exchange losses on cash and cash equivalents	**(15)**	(610)	(613)
Cash and cash equivalents at end of period	**9 771**	6 545	9 097
Reconciliation to statement of financial position			
Cash and cash equivalents	**9 771**	6 545	9 098
Bank overdraft included in borrowings at amortised cost	**–**	–	(1)
Cash and cash equivalent at end of period	**9 771**	6 545	9 097
1. Net purchase of investments held to back policyholder liabilities	**(3 697)**	(3 205)	(7 084)
Purchase of investments held to back policyholder liabilities	**(16 634)**	(11 804)	(32 104)
Disposal of investments held to back policyholder liabilities	**12 937**	8 599	25 020
2. Net (purchase)/disposal of financial assets	**(283)**	682	2 125
Purchase of financial assets	**(13 191)**	(9 374)	(14 083)
Disposal of financial assets	**12 908**	10 056	16 208

* *Amount is less than R500 000.*

ADDITIONAL INFORMATION

at 31 December 2017

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.

	31 December 2017			
R million (unaudited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	26 175	–	–	26 175
– Equity linked notes	–	2 758	–	2 758
– Debt securities	13 071	986	–	14 057
– Inflation linked securities	279	20	–	299
– Money market securities	281	8 415	–	8 696
– Mutual funds	14 851	–	–	14 851
Available-for-sale financial instruments:				
– Equity securities	155	–	–	155
– Equity linked notes	–	15	–	15
– Debt securities	142	165	–	307
– Money market securities	1 312	1 662	–	2 974
– Mutual funds	4 114	–	–	4 114
Derivative financial instruments at fair value:				
– Hedges	–	766	–	766
– Non-hedges	–	110	–	110
	60 380	14 897	–	75 277
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	73	–	73
– Non-hedges	–	63	–	63
	–	136	–	136

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

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 2017			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	24 069	–	–	24 069
– Equity linked notes	–	2 557	–	2 557
– Debt securities	11 815	462	–	12 277
– Inflation linked securities	386	–	–	386
– Money market securities	590	5 628	–	6 218
– Mutual funds	13 441	–	–	13 441
Available-for-sale financial instruments:				
– Equity securities	145	–	–	145
– Equity linked notes	–	17	–	17
– Debt securities	94	147	–	241
– Inflation linked securities	5	–	–	5
– Money market securities	642	1 588	–	2 230
– Mutual funds	4 660	–	–	4 660
Derivative financial instruments at fair value:				
– Hedges	–	354	–	354
– Non-hedges	–	38	–	38
	55 847	10 791	–	66 638
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	29	–	29
– Non-hedges	–	106	–	106
	–	135	–	135

Discovery

Exchange rates used in the preparation of these results

	USD	GBP
31 December 2017		
– Average	**13.32**	**17.67**
– Closing	**12.32**	**16.65**
30 June 2017		
– Average	13.61	17.29
– Closing	13.12	17.03
31 December 2016		
– Average	13.97	17.76
– Closing	13.74	16.92

SEGMENTAL INFORMATION

for the six months ended 31 December 2017

R million (unaudited)	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	12	5 416	5 656	–
Reinsurance premiums	(1)	(1 081)	–	–
Net insurance premium revenue	11	4 335	5 656	–
Fee income from administration business	3 330	14	919	–
Vitality income	–	–	–	1 303
Investment income on assets backing policyholder liabilities	–	236	21	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(339)	339	–
Net fair value gains on financial assets at fair value through profit or loss	1	351	3 356	–
Net income	3 342	4 597	10 291	1 303
Claims and policyholders' benefits	(1)	(3 325)	(3 425)	–
Insurance claims recovered from reinsurers	4	768	–	–
Net claims and policyholders' benefits	3	(2 557)	(3 425)	–
Acquisition costs	(2)	(846)	(520)	(43)
Marketing and administration expenses				
– depreciation and amortisation	(158)	(4)	–	–
– impairment of intangible assets	–	–	–	–
– other expenses	(1 856)	(799)	(393)	(1 203)
Recovery of expenses from reinsurers	–	–	–	–
Net transfer to/from assets and liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 518	–	–
– change in assets arising from reinsurance contracts	–	4	–	–
– change in liabilities arising from insurance contracts	–	(53)	(5 311)	–
– change in liabilities arising from reinsurance contracts	–	(20)	–	–
Fair value adjustment to liabilities under investment contracts	–	(1)	(223)	–
Share of profits from equity accounted investments	3	–	–	–
Normalised profit/(loss) from operations	1 332	1 839	419	57
Investment income earned on shareholder investments and cash	37	23	13	17
Net realised gains on available-for-sale financial assets	–	5	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(29)	(4)	–	–
Foreign exchange losses	(1)	–	(4)	–
Profit before tax	1 339	1 863	428	74
Income tax expense	(349)	(472)	(120)	(21)
Profit for the period	990	1 391	308	53

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

UK Health	UK Life	All other segments	Segment total	IFRS reporting adjustments			IFRS total
				UK Life[2]	DUT[3]	Normalised profit adjustments[4]	
3 776	1 992	1 264	18 116	(358)	–	–	17 758
(575)	(744)	(84)	(2 485)	358	–	–	(2 127)
3 201	1 248	1 180	15 631	–	–	–	15 631
19	–	186	4 468	–	–	9	4 477
224	47	625	2 199	–	–	–	2 199
5	6	61	329	–	–	–	329
–	(119)	–	(119)	119	–	–	–
–	–	–	–	–	–	–	–
–	75	(13)	3 770	–	1 056	(20)	4 806
3 449	1 257	2 039	26 278	119	1 056	(11)	27 442
(2 010)	(402)	(806)	(9 969)	202	–	–	(9 767)
445	235	116	1 568	(202)	–	–	1 366
(1 565)	(167)	(690)	(8 401)	–	–	–	(8 401)
(276)	(915)	(125)	(2 727)	(119)	–	–	(2 846)
(126)	(7)	(121)	(416)	–	–	–	(416)
(109)	–	–	(109)	–	–	–	(109)
(1 422)	(734)	(1 363)	(7 770)	(7)	(105)	(42)	(7 924)
300	937	–	1 237	–	–	–	1 237
–	1 083	–	2 601	(323)	–	–	2 278
13	4	–	21	–	–	–	21
90	(6)	(22)	(5 302)	–	–	(140)	(5 442)
–	(1 191)	–	(1 211)	323	–	–	(888)
–	–	–	(224)	–	(951)	20	(1 155)
1	–	78	82	–	–	–	82
355	261	(204)	4 059	(7)	–	(173)	3 879
1	2	24	117	–	–	–	117
–	–	3	8	–	–	–	8
–	–	(63)	(63)	–	–	–	(63)
(1)	–	(364)	(398)	–	–	8	(390)
–	–	(12)	(17)	–	–	–	(17)
355	263	(616)	3 706	(7)	–	(165)	3 534
(37)	(48)	63	(984)	7	–	140	(837)
318	215	(553)	2 722	–	–	(25)	2 697

The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. 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 license (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 Normalised profit adjustments include:
- *The effects of eliminating intercompany linked assets on consolidation.*
- *Discovery has not completed the move to the new head office and full occupancy of the building is only expected by March 2018. Duplicate building costs of R25 million have been excluded from normalised profit from operations.*
- *The accounting impact of the recognition of a deferred tax asset arising from the Discovery Life Individual Policyholder Fund ('IPF'), has been excluded from normalised profit from operations for segmental purposes.*

SEGMENTAL INFORMATION continued
for the six months ended 31 December 2016

R million (unaudited)	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	8	4 844	5 727	–
Reinsurance premiums	(1)	(867)	–	–
Net insurance premium revenue	7	3 977	5 727	–
Fee income from administration business	3 014	10	799	–
Vitality income	–	–	–	1 180
Investment income on assets backing policyholder liabilities	–	258	–	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(269)	269	–
Net fair value gains on financial assets at fair value through profit or loss	–	184	120	–
Net income	3 021	4 160	6 915	1 180
Claims and policyholders' benefits	(1)	(2 927)	(3 405)	–
Insurance claims recovered from reinsurers	1	585	–	–
Recapture of reinsurance	–	–	–	–
Net claims and policyholders' benefits	–	(2 342)	(3 405)	–
Acquisition costs	–	(823)	(510)	(43)
Marketing and administration expenses				
– depreciation and amortisation	(148)	(8)	–	–
– other expenses	(1 685)	(757)	(319)	(1 104)
Recovery of expenses from reinsurers	–	–	–	–
Net transfer to/from assets and liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	1 735	–	–
– change in assets arising from reinsurance contracts	–	(11)	–	–
– change in liabilities arising from insurance contracts	–	11	(2 402)	–
– change in liabilities arising from reinsurance contracts	–	(196)	–	–
Fair value adjustment to liabilities under investment contracts	–	(1)	47	–
Share of profits from equity accounted investments	–	–	–	–
Normalised profit/(loss) from operations	1 188	1 768	326	33
Investment income earned on shareholder investments and cash	24	7	11	7
Net realised gains on available-for-sale financial assets	–	–	5	–
Rebranding and business acquisitions expenses	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(17)	(4)	–	–
Foreign exchange losses	–	–	(10)	–
Profit before tax	1 195	1 771	332	40
Income tax expense	(327)	(502)	(92)	(11)
Profit for the period	868	1 269	240	29

1 The inter-segment funding of R269 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: Normalised profit adjustments[4]	IFRS total
3 641	1 824	972	17 016	(364)	–	–	16 652
(806)	(541)	(98)	(2 313)	364	–	–	(1 949)
2 835	1 283	874	14 703	–	–	–	14 703
10	–	169	4 002	–	–	–	4 002
269	40	640	2 129	–	–	–	2 129
10	11	51	330	–	–	–	330
–	(26)	–	(26)	4	–	–	(22)
–	–	–	–	–	–	–	–
–	(101)	–	203	–	(31)	–	172
3 124	1 207	1 734	21 341	4	(31)	–	21 314
(2 195)	(326)	(683)	(9 537)	149	–	–	(9 388)
699	167	133	1 585	(149)	–	–	1 436
(882)	–	–	(882)	–	–	–	(882)
(2 378)	(159)	(550)	(8 834)	–	–	–	(8 834)
(294)	(936)	(93)	(2 699)	(4)	–	–	(2 703)
(108)	–	(79)	(343)	–	–	–	(343)
(1 248)	(698)	(1 316)	(7 127)	(65)	(88)	(84)	(7 364)
1 296	703	–	1 999	–	–	–	1 999
–	394	–	2 129	500	–	–	2 629
(123)	4	–	(130)	(2)	–	–	(132)
(127)	(6)	(15)	(2 539)	2	–	–	(2 537)
–	(251)	–	(447)	(500)	–	–	(947)
–	–	–	46	–	119	–	165
–	–	16	16	–	–	–	16
142	258	(303)	3 412	(65)	–	(84)	3 263
1	4	8	62	–	–	–	62
–	–	–	5	–	–	–	5
(76)	–	(8)	(84)	–	–	84	–
–	–	(87)	(87)	–	–	–	(87)
–	(7)	(182)	(210)	–	–	–	(210)
–	–	(7)	(17)	–	–	–	(17)
67	255	(579)	3 081	(65)	–	–	3 016
(6)	(126)	52	(1 012)	65	–	–	(947)
61	129	(527)	2 069	–	–	–	2 069

The segment information is presented on the same basis as reported to the Chief Executive Officers (CEO) of the reportable segments. The segment total, as reported to the Chief Executive Officers, is 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 license (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 Rebranding and business acquisitions expenses are excluded from normalised profit from operations, but are included in marketing and administration expenses for IFRS purposes.

New business annualised premium income

Core new business annualised premium income (API) increased 16% for the six months ended 31 December 2017 when compared to the same period in the prior year.

R million	December 2017	December 2016	% change
Discovery Health – DHMS	**2 763**	2 552	8
Discovery Health – Closed Schemes[1]	**561**	478	17
Discovery Life	**1 121**	1 053	6
Discovery Invest	**1 220**	1 278	(5)
Discovery Insure[2]	**495**	406	22
Discovery Vitality	**78**	81	(4)
VitalityHealth	**522**	443	18
VitalityLife	**557**	581	(4)
Ping An Health	**1 986**	1 169	70
Core new business API of Group	**9 303**	8 041	16
New Closed Schemes[1]	**78**	487	(84)
New business API of Group including new Closed Schemes	**9 381**	8 528	10
Gross revenue Vitality Group[3]	**324**	316	3
Total new business API and other new business	**9 705**	8 844	10

1 *The new business API for Closed Schemes includes additional lives on existing Closed Schemes. The new business API for New Closed Schemes includes contracted new business API and business in the first twelve months of on-boarding. Closed Schemes are those restricted to certain employers and industries.*
2 *In line with June 2017 reporting, the comparative for Discovery Insure has been restated to only include first year servicing and is net of indirect taxes.*
3 *Vitality Group new business includes gross recurring and lump sum revenues earned by Vitality Group and specifically excludes fees collected for administrative and implementation services.*

Calculation of new business annualised premium income

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 and the comparatives have been restated where necessary.

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 10% for the six months ended 31 December 2017 when compared to the same period in the prior year.

R million	December 2017	December 2016	% change
Discovery Health	**36 283**	32 239	13
Discovery Life	**5 430**	4 854	12
Discovery Invest	**9 506**	9 364	2
Discovery Insure	**1 279**	980	31
Discovery Vitality	**1 303**	1 180	10
VitalityHealth	**4 019**	3 920	3
VitalityLife	**2 039**	1 864	9
All other businesses	**796**	801	(1)
Gross inflows under management	**60 655**	55 202	10
Less: collected on behalf of third parties	**(35 872)**	(32 055)	12
Discovery Health	**(32 941)**	(29 217)	13
Discovery Invest	**(2 931)**	(2 838)	3
Gross income of Group per the segmental information	**24 783**	23 147	7
Gross income is made up as follows:			
– Insurance premium revenue	**18 116**	17 016	6
– Fee income from administration business	**4 468**	4 002	12
– Vitality income	**2 199**	2 129	3
Gross income of Group per the segmental information	**24 783**	23 147	7

Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the six months ended 31 December 2017:

R million	December 2017	December 2016	% change
Discovery Health	**1 332**	1 188	12
Discovery Life	**1 839**	1 768	4
Discovery Invest	**419**	326	29
Discovery Vitality	**57**	33	73
VitalityHealth	**355**	142	150
VitalityLife	**261**	258	1
Additional 54.99% share of DiscoveryCard after tax profit	**82**	71	15
Normalised profit from established businesses	**4 345**	3 786	15
All other segments[1]	**(286)**	(374)	24
– Emerging businesses	**66**	(130)	151
– Development and other segments	**(352)**	(244)	(44)
Normalised profit from operations	**4 059**	3 412	19

1 *The total of 'All other segments' in the table above does not agree to the normalised profit from operations per the segmental information due to the inclusion of the additional 54.99% share of DiscoveryCard after tax profit in Established businesses.*

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 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 new products and markets. Start-up costs include costs in relation to the Discovery Bank, the planned UK investment business, a commercial offering in Discovery Insure and an Umbrella Fund offering in Discovery Invest. Head office costs are also included in this segment.

Significant transactions affecting the current results

Discovery's new head office

Discovery has entered into a 15 year lease agreement for its new head office. The lease commenced November 2017 and Discovery started taking occupancy of the building at that date, on a phased approach.

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

In terms of the indicators provided in IAS 17.10 and IAS 17.11, Discovery has classified the lease as a finance lease given that the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. This accounting treatment has resulted in the recognition of an asset of R2 549 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. 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. The accounting treatment does not impact Discovery's covenant compliance.

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

The building is depreciated over the lease term, using the straight-line method. R28 million depreciation has been recognised in profit or loss for the two months since beneficial occupancy. Finance charges of R47 million have been recognised in profit or loss in respect of the finance lease liability.

Discovery has not completed the move to the new head office and full occupancy of the building is only expected by March 2018. Various building costs, such as rental, have therefore been duplicated in the current financial period. For the calculation of normalised headline earnings, duplicate building costs of R25 million have been added back.

Borrowings at amortised cost

R million	Reference	December 2017	June 2017
Bank borrowings		**8 051**	6 774
– United Kingdom borrowings	i	**1 784**	2 174
– South African borrowings	ii	**6 267**	4 600
Redeemable preference shares		**1 402**	1 400
Finance lease liability		**2 976**	349
– New building lease (refer to page 22)		**2 596**	–
– General		**380**	349
Bank overdraft		**–**	1
Total borrowings at amortised cost		**12 429**	8 524

i. **United Kingdom borrowings**

Discovery previously entered into term facilities totalling GBP 150 million. These borrowings have been used to fund the new business acquisition costs incurred by VitalityLife, which were previously funded by The Prudential Assurance Company Limited (Prudential) and disclosed as 'Negative Reserve Funding' in the Statement of financial position.

Discovery repaid GBP 22.5 million of this facility in previous financial periods and a further GBP 20.5 million of this facility on 30 November 2017, of which GBP 13 million was a voluntary repayment. The balance owing at 31 December 2017 amounts to GBP 107 million (R1 784 million) (30 June 2017: GBP 127.5 million (R2 174 million)).

Interest rates on these facilities are floating, linked to 3 month LIBOR, payable quarterly in arrears. Finance charges of R21 million (2016: R29 million) in respect of these borrowings have been recognised in profit or loss.

ii. **South African borrowings**

R million	Reference	December 2017
Balance at beginning of the period		**4 600**
Issuance of listed debt	a.	**1 500**
Draw down on existing facility	b.	**155**
Repayment of borrowings	b.	**(26)**
Accrued interest		**38**
Balance at end of the period		**6 267**

a. During the current financial period, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In preparation of this inaugural issuance, Discovery Limited obtained a credit rating from Moody's who assigned a Aa3.za issuer rating on 20 October 2017. In terms of the DMTN programme, Discovery issued R1.5 billion JSE Listed Notes in its inaugural issuance on 21 November 2017, with the following profile:

Interest	Interest payable in arrears	Capital repayment maturity date	Amount (R million)
Floating rate linked to 3 month JIBAR, plus 161 bps[1]	Quarterly	21 November 2022	500
Floating rate linked to 3 month JIBAR, plus 191 bps[2]	Quarterly	21 November 2024	800
Fixed rate at 10.46% per annum	Semi-annually	21 November 2024	200
			1 500

1 Interest rates on these notes have been fixed at 9.71% per annum, through an interest rate swap.
2 Interest rates on these notes have been fixed at 10.31% per annum, through an interest rate swap.

b. Discovery Central Services, a subsidiary of the Discovery Group, concluded a 10 year loan facility agreement of R650 million in December 2016, of which R495 million was utilised in the previous financial year. The remaining portion of this facility of R155 million was utilised during this financial period and R26 million was repaid in terms of the agreement. Interest rates on the facility are fixed at a weighted average rate of 11.44% per annum, with capital and interest repayable in instalments over the duration of the loan facility.

Finance charges of R290 million (2016: R96 million) in respect of these South African borrowings have been recognised in profit or loss.

Negative reserve funding

The negative reserve funding liability on Discovery's Statement of financial position represents the acquisition costs that were funded by Prudential on behalf of VitalityLife. The liability unwinds and is repaid on a matched basis as the cash flows emerge from the assets arising from insurance contracts. In the event that the cash flows do not emerge as anticipated, VitalityLife would be required to repay these liabilities from other resources.

In terms of the level premium reinsurance treaty that VitalityLife entered into, the reinsurer is required to place a security deposit with Prudential to reduce counterparty risk. At 31 December 2017, Prudential held GBP 157 million (30 June 2017: GBP 147 million) as a security deposit. The contractual arrangement in respect of the business written on the Prudential license is accounted for as a reinsurance contract under IFRS 4 and as a result, the 'deposit back' held by Prudential has been disclosed as a reduction of the negative reserve funding liability. The corresponding liability to the reinsurer has been accounted for in 'Trade and other payables'.

The decrease in the negative reserve funding liability in the current financial period, relates to the repayment of funding by VitalityLife as well as an increase in the amount of deposit back held by Prudential.

Consolidation of Discovery Unit Trusts

The Discovery Unit Trusts are consolidated into Discovery's results for accounting purposes, in both the current and prior financial period. These assets and liabilities are however attributable to third party unitholders. The following large increases in the Discovery Unit Trusts' Statement of financial position have had a direct impact on the Group's Statement of financial position:

– Cash and cash equivalents decreased by R582 million.
– Loans and receivables increased by R526 million.
– Trade and other payables increased by R760 million.
– Investments at fair value through profit or loss increased by R2 724 million.
– Investment contracts at fair value through profit or loss increased by R1 887 million.

Other significant items in these results

Taxation

For South African entities that are in a tax paying position, tax has been provided at 28% (2016: 28%) in the financial statements. No deferred tax assets have been recognised on the assessed losses in Discovery Insure and Vitality Group and no further deferred tax asset has been raised in respect of the VitalityHealth assessed losses.

In addition, the effective tax rate of the comparative period was abnormally high due to amongst other items, an adjustment to the tax charged by Prudential in respect of business written on Prudential's life insurance license.

Material transactions with related parties

Discovery Health administers the Discovery Health Medical Scheme (DHMS) and provides managed care services for which it charges an administration fee and a managed healthcare fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees totalled R2 662 million for the six months ended 31 December 2017 (2016: R2 448 million). Discovery offers the members of DHMS access to the Vitality programme.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have increased by R7 888 million due to market growth and the sale of Discovery Invest products. This includes the impact of consolidating the Discovery Unit Trusts into the Group's results. The increase in the financial assets at fair value through profit or loss has been presented in 'Net purchase of investments held to back policyholder liabilities' of R3 697 million in the Statement of cash flows.

Deferred tax

Deferred tax liability

The deferred tax liability is primarily attributable to the application of the Financial Services Board directive 145. This directive allows for the zeroing on a statutory basis of the assets arising from insurance contracts. The statutory basis is used when calculating tax payable for Discovery Life, resulting in a timing difference between the tax base and the accounting base.

A new tax basis for Life companies was promulgated in January 2017. The effective date of the new 'adjusted IFRS' tax valuation basis will align with the implementation of Solvency Assessment and Management (SAM) and has had no impact on the results of the current period.

Deferred tax asset

As reported in the results for June 2017, recent tax amendments for Life companies introduced a Risk Policy Fund for all new risk business written, effective 1 July 2016. In terms of the legislation, Discovery Life has elected to move existing risk business to this fund. This election was made in the first quarter of 2017. A portion of the assessed loss of R16.1 billion (30 June 2017: R16.5 billion) in the Individual Policyholder Fund is now expected to be utilised over time. A value of R702 million (30 June 2017: R562 million), implicit in the valuation of insurance contract liabilities have therefore been recognised as an explicit deferred tax asset in terms of IAS 12: Income Taxes.

Shareholder information

Directorate

There have been no changes to the Board of Discovery Limited during the current period.

Dividend policy and capital

Final dividends paid

The following final dividends were paid during the current period:

- B preference share dividend of 520.68493 cents per share (416.54794 cents net of dividend withholding tax), paid on 18 September 2017.
- Ordinary share dividend of 98 cents per share (78.4 cents net of dividend withholding tax), paid on 9 October 2017.

Interim dividend declaration

B preference share cash dividend declaration:

On 15 February 2018, the directors declared an interim gross cash dividend of 518.15068 cents (414.52054 cents net of dividend withholding tax) per B preference share for the period 1 July 2017 to 31 December 2017, 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, 6 March 2018
Shares commence trading "ex" dividend	Wednesday, 7 March 2018
Record date	Friday, 9 March 2018
Payment date	Monday, 12 March 2018

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 7 March 2018 and Friday, 9 March 2018, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared an interim gross cash dividend of 101 cents (80.8 cents net of dividend withholding tax) per ordinary share, out of income reserves for the six month period ended 31 December 2017. 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 646 844 992 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 13 March 2018
Shares commence trading "ex" dividend	Wednesday, 14 March 2018
Record date	Friday, 16 March 2018
Payment date	Monday, 19 March 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 14 March 2018 and Friday, 16 March 2018, both days inclusive.

Capital

The table below summarises the capital adequacy requirement (CAR) on the statutory basis, across the Group subsidiaries, and the actual solvency capital held in relation to this requirement, at 31 December:

	2017		2016	
	CAR	CAR cover	CAR	CAR cover
Discovery Life Limited	**R791 million**	**3.8 times**	R684 million	3.2 times
Discovery Insure Limited	**R548 million**	**2.2 times**	R405 million	2.4 times
Vitality Health Limited	**GBP 84.3 million (R1 404 million)**	**1.6 times**	GBP 83.3 million (R1 409 million)	1.3 times
Vitality Life Limited	**GBP 104.1 million (R1 733 million)**	**1.9 times**	GBP 62.1 million (R1 058 million)	2.1 times

Accounting policies

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

EMBEDDED VALUE STATEMENT

for the six months ended 31 December 2017

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 Life, the shareholder cash flows are based on the release of margins under the Statutory Valuation Method ("SVM") basis.

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 and Discovery Insure, no published value has been placed on the current in-force business as the businesses have not yet reached suitable scale with predictable experience.

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

The 31 December 2017 embedded value results and disclosures were not subjected to an external review or audit.

Table 1: Group embedded value

R million	31 December 2017	31 December 2016	% change	30 June 2017
Shareholders' funds	**34 212**	30 291	13	32 290
Adjustment to shareholders' funds from published basis[1]	**(29 196)**	(25 815)		(27 558)
Adjusted net worth[2]	**5 016**	4 476		4 732
Value of in-force covered business before cost of required capital	**57 691**	50 970		54 756
Cost of required capital	**(2 299)**	(2 137)		(2 194)
Discovery Limited embedded value	**60 408**	53 309	13	57 294
Number of shares (millions)	**645.0**	645.0		645.0
Embedded value per share	**R93.66**	R82.65	13	R88.83
Diluted number of shares (millions)	**646.2**	646.2		646.2
Diluted embedded value per share[3]	**R93.49**	R82.60	13	R88.67

1 A breakdown of the adjustment to shareholders' funds is shown in the table below. An additional adjustment has been included as at 31 December 2017 to reverse the IAS 17 accounting treatment of the 1 Discovery Place lease contract. Future rental payments in respect of the covered businesses under the lease are capitalised in the value of in-force for covered business, consistent with the treatment of other renewal expenses. Note that where relevant, adjustments have been converted using the closing exchange rate of R16.65/GBP (June 2017: R17.03/GBP; December 2016: R16.92/GBP):

R million	*31 December 2017*	*31 December 2016*	*30 June 2017*
Life net assets under insurance contracts	*(19 854)*	*(17 258)*	*(18 354)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(3 891)*	*(3 176)*	*(3 620)*
VitalityHealth financial reinsurance asset	*(1 568)*	*(1 279)*	*(1 440)*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(254)*	*(233)*	*(252)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(26)*	*(32)*	*(27)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(2 899)*	*(3 058)*	*(3 086)*
Net preference share capital	*(779)*	*(779)*	*(779)*
Reversal of 1 Discovery Place IAS 17 financial lease accounting	*75*	*–*	*–*
	(29 196)	*(25 815)*	*(27 558)*

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

R million	*31 December 2017*	*31 December 2016*	*30 June 2017*
Shareholders' funds	*34 212*	*30 291*	*32 290*
Adjustment to shareholders' funds	*(29 196)*	*(25 815)*	*(27 558)*
Adjusted net worth	*5 016*	*4 476*	*4 732*
Excess of available regulatory capital over adjusted net worth	*4 292*	*3 708*	*4 100*
Available regulatory capital	*9 308*	*8 184*	*8 832*
Regulatory required capital	*4 743*	*4 024*	*4 477*
Required capital buffer	*2 755*	*2 414*	*2 664*
Required capital	*7 498*	*6 438*	*7 141*
Excess available capital	*1 810*	*1 746*	*1 691*

The excess of available regulatory capital over adjusted net worth reflects the difference between the adjusted net worth and the available regulatory capital. This includes the net preference share capital of R779 million which is included as available regulatory capital. At 31 December 2017, this adjustment also includes the difference between Vitality Life Limited's Solvency II Pillar 1 Own Funds and its adjusted net worth and adds back the negative reserves eliminated on the Discovery funded VitalityLife business on the Prudential licence.

The required capital at December 2017 for Life is R1 584 million (June 2017: R1 409 million; December 2016: R1 369 million), for Health and Vitality is R778 million (June 2017: R797 million; December 2016: R751 million), for VitalityHealth is R1 899 million (June 2017: R1 984 million; December 2016: R1 931 million) and for VitalityLife is R3 237 million (June 2017: R2 951 million; December 2016: R2 387 million). For Life, the required capital was set equal to two times the statutory Capital Adequacy 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 (previously 1.4 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. The Regulatory Required Capital is calculated as the relevant regulatory solvency capital requirement for each insurance business.

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 six months ended 31 December 2017

Table 2: Value of in-force covered business

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 31 December 2017			
Health and Vitality	**19 246**	**(358)**	**18 888**
Life and Invest[1]	**27 358**	**(843)**	**26 515**
VitalityHealth[2]	**5 849**	**(288)**	**5 561**
VitalityLife[2]	**5 238**	**(810)**	**4 428**
Total	**57 691**	**(2 299)**	**55 392**
at 31 December 2016			
Health and Vitality	17 415	(329)	17 086
Life and Invest[1]	23 901	(796)	23 105
VitalityHealth[2]	5 028	(320)	4 708
VitalityLife[2]	4 626	(692)	3 934
Total	50 970	(2 137)	48 833
at 30 June 2017			
Health and Vitality	18 595	(352)	18 243
Life and Invest[1]	25 102	(780)	24 322
VitalityHealth[2]	5 959	(307)	5 652
VitalityLife[2]	5 100	(755)	4 345
Total	54 756	(2 194)	52 562

1 *Included in the Life and Invest value of in-force covered business is R1 272 million (June 2017: R1 153 million; December 2016: R1 155 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 R16.65/GBP (June 2017: R17.03/GBP; December 2016: R16.92/GBP).*

Table 3: Group embedded value earnings

	Six months ended		Year ended
R million	31 December 2017	31 December 2016	30 June 2017
Embedded value at end of period	**60 408**	53 309	57 294
Less: Embedded value at beginning of period	**(57 294)**	(53 080)	(53 080)
Increase in embedded value	**3 114**	229	4 214
Net change in capital[1]	**–**	1	4
Dividends paid	**673**	621	1 231
Transfer to hedging reserve	**(168)**	67	(29)
Employee share option schemes	**(5)**	(9)	(7)
Embedded value earnings	**3 614**	909	5 413
Annualised return on opening embedded value	**13.0%**	3.5%	10.2%

1 *The net change in capital reflects an increase in treasury shares in the period.*

Table 4: Components of Group embedded value earnings

R million	Six months ended 31 December 2017 Net worth	Cost of required capital	Value of in-force covered business	Embedded value	Six months ended 31 December 2016 Embedded value	Year ended 30 June 2017 Embedded value
Total profit from new business (at point of sale)	(2 290)	(102)	3 667	**1 275**	1 156	2 437
Profit from existing business						
■ Expected return	2 870	11	5	**2 886**	2 431	5 220
■ Change in methodology and assumptions[1]	565	(12)	(261)	**292**	(44)	858
■ Experience variances	349	(30)	(179)	**140**	(195)	66
Impairment, amortisation and fair value adjustment[2]	(28)	–	–	**(28)**	(54)	(95)
Increase in goodwill and intangibles	(84)	–	–	**(84)**	(69)	(203)
Other initiative costs[3]	(243)	–	7	**(236)**	(478)	(691)
Non-recurring expenses[4]	(15)	–	–	**(15)**	(83)	(103)
Acquisition costs[5]	(26)	–	(1)	**(27)**	(94)	(196)
Finance costs	(385)	–	–	**(385)**	(68)	(500)
Foreign exchange rate movements	(121)	27	(263)	**(357)**	(1 599)	(1 569)
Other[6]	14	1	(40)	**(25)**	(6)	4
Return on shareholders' funds[7]	178	–	–	**178**	12	185
Embedded value earnings	784	(105)	2 935	**3 614**	909	5 413

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 DiscoveryCard profit share arrangement, banking costs and the PrimeMed acquisition.
3 This item reflects Group initiatives including expenses relating to the investments in Vitality Group, Discovery Bank, the planned UK investment business, a commercial offering in Discovery Insure, an Umbrella Fund offering in Discovery Invest, other new business initiatives and unallocated head office costs.
4 This item includes once-off costs relating to systems development spend in Discovery Health.
5 Acquisition costs relate to commission paid on the VitalityLife and Life business and expenses incurred in writing Health and Vitality business that has been written over the period but will only be activated and on risk after the valuation date. These policies are not included in the embedded value or the value of new business and therefore the costs are excluded.
6 This item includes, among other items, the tax benefit that will be obtained as the VitalityHealth DAC and intangible software assets amortise.
7 The return on shareholders' funds is shown net of tax and management charges.

EMBEDDED VALUE STATEMENT continued

for the six months ended 31 December 2017

Table 5: Experience variances

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in–force	Total
Renewal expenses	76	–	31	(6)	(8)	–	9	–	**102**
Lapses and surrenders	1	7	(12)	15	–	(39)	(71)	(75)	**(174)**
Mortality and morbidity[1]	–	–	(78)	33	320	–	40	–	**315**
Policy alterations	–	(12)	(238)	140	–	–	(19)	(4)	**(133)**
Premium and fee income[2]	(2)	(520)	(58)	(1)	–	–	1	11	**(569)**
Economic assumptions	–	–	80	126	–	–	–	–	**206**
Commission	–	–	–	–	–	–	–	–	**–**
Tax[3]	34	–	105	(88)	36	–	51	2	**140**
Reinsurance	–	–	–	–	5	–	17	(2)	**20**
Maintain modelling term[4]	–	144	–	33	–	3	–	–	**180**
Vitality benefits	25	–	–	–	–	–	–	–	**25**
Other	64	(1)	(81)	63	18	–	3	(38)	**28**
Total	198	(382)	(251)	315	371	(36)	31	(106)	**140**

1 The mortality and morbidity experience for VitalityHealth arises due to improvements in risk management, sales and retention models, claim payment processes, and an increase in Vitality engagement, resulting in lower experience loss ratios over those expected.
2 The premium and fee income experience for Health and Vitality reflects the impact on administration and managed care fees due to the in-period inflation being lower than that assumed. For Life, the experience arises largely due to the impact of Vitality distribution shifts compared to expected levels.
3 The tax variance for Life and Invest arises due to a movement in the deferred tax asset which delays the payment of tax.
4 The projection term for Health and Vitality, Group Life and VitalityHealth at 31 December 2017 has not been changed from that used in the 30 June 2017 embedded value calculation. Therefore, an experience variance arises because the total term of the in-force covered business is effectively increased by six months.

Table 6: Methodology and assumption changes

	Health and Vitality		Life and Invest		VitalityHealth		VitalityLife		
R million	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Net worth	Value of in-force	Total
Modelling changes	–	–	(13)	21	–	–	(71)	(41)	**(104)**
Expenses[1]	–	396	–	–	–	–	81	22	**499**
Lapses	–	–	–	–	–	–	–	–	**–**
Mortality and morbidity	–	–	–	–	–	–	–	–	**–**
Benefit enhancements	–	–	(20)	(42)	–	–	–	–	**(62)**
Vitality benefits	–	(2)	–	–	–	–	–	–	**(2)**
Tax	–	–	–	–	–	–	–	–	**–**
Economic assumptions	–	30	(2)	122	–	(10)	(189)	66	**17**
Premium and fee income	–	–	–	–	–	–	(3)	(57)	**(60)**
Reinsurance[2]	–	–	636	(638)	(17)	(12)	–	–	**(31)**
Other[3]	–	–	5	2	–	–	158	(130)	**35**
Total	–	424	606	(535)	(17)	(22)	(24)	(140)	**292**

1 For Health and Vitality, the expenses item reflects a revision to the renewal expense assumption in light of the lower in-period inflation relative to expected.
2 For Life the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.
3 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 Discovery Life (based on SAP 104).

Table 7: Embedded value of new business

R million	Six months ended 31 December 2017	31 December 2016	% change	Year ended 30 June 2017
Health and Vitality				
Present value of future profits from new business at point of sale	**402**	333		820
Cost of required capital	**(14)**	(15)		(31)
Present value of future profits from new business at point of sale after cost of required capital	**388**	318	22	789
New business annualised premium income[1]	**1 781**	1 685	6	4 533
Life and Invest				
Present value of future profits from new business at point of sale[2]	**716**	689		1 304
Cost of required capital	**(37)**	(37)		(73)
Present value of future profits from new business at point of sale after cost of required capital	**679**	652	4	1 231
New business annualised premium income[3]	**1 382**	1 437	(4)	2 840
Annualised profit margin[4]	**6.1%**	5.8%		5.5%
Annualised profit margin excluding Invest business[5]	**11.5%**	10.5%		10.2%
VitalityHealth				
Present value of future profits from new business at point of sale	**12**	27		157
Cost of required capital	**(23)**	(17)		(46)
Present value of future profits from new business at point of sale after cost of required capital	**(11)**	10	(210)	111
New business annualised premium income (Rand)[6]	**492**	418	18	958
Annualised profit margin[4]	**(0.3%)**	0.4%		1.8%
VitalityLife[7]				
Present value of future profits from new business at point of sale	**247**	243		432
Cost of required capital	**(28)**	(67)		(126)
Present value of future profits from new business at point of sale after cost of required capital	**219**	176	24	306
New business annualised premium income (Rand)	**443**	490	(9)	844
Annualised profit margin[4]	**6.7%**	5.1%		5.2%

1 Health new business annualised premium income is the gross contribution to the medical schemes. The new business annualised premium income shown above excludes premiums in respect of members who join an existing employer where the member has no choice of medical scheme, as well as premiums in respect of new business written during the period but only activated after 31 December 2017.
The total Health and Vitality new business annualised premium income written over the period was R3 402 million (June 2017: R6 276 million; December 2016: R3 122 million).

2 Included in the Life and Invest embedded value of new business is R49 million (June 2017: R109 million; December 2016: R93 million) in respect of investment management services provided on off balance sheet investment business.
Risk business written prior to the valuation date allows certain Invest business to be written at financially advantageous terms, the impact of which has been recognised in the value of new business.

3 Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date.
The new business annualised premium income of R1 382 million (June 2017: R2 840 million; December 2016: R1 437 million) (single premium APE: R559 million (June 2017: R1 169 million; December 2016: R592 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 R638 million (June 2017: R1 172 million; December 2016: R574 million) and servicing increases of R316 million (June 2017: R659 million; December 2016: R320 million), was R2 337 million (June 2017: R4 671 million; December 2016: R2 331 million) (single premium APE: R588 million (June 2017: R1 277 million; December 2016: R620 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 From 30 June 2017, Discovery Retirement Optimiser policies fall under Invest. Therefore, the "Annualised profit margin excluding Invest business" at 31 December 2017 and 30 June 2017 excludes Discovery Retirement Optimiser policies, whereas these policies are included in the 31 December 2016 comparative period. On a like-for-like basis to the 31 December 2016 comparative period the "Annualised profit margin excluding Invest business" at 31 December 2017 would have been 10.7% (June 2017: 9.5%).

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 31 December 2017.

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.

Table 8: Embedded value economic assumptions

		31 December 2017	31 December 2016	30 June 2017
Beta coefficient		**0.75**	0.75	0.75
Equity risk premium (%)		**3.5**	3.5	3.5
Risk discount rate (%)				
Health and Vitality		**11.875**	12.125	12.125
Life and Invest		**12.625**	12.625	12.875
VitalityHealth		**3.91**	3.93	3.90
VitalityLife		**4.635**	4.725	4.755
Rand/GB Pound exchange rate				
Closing		**16.65**	16.92	17.03
Average		**17.67**	17.76	17.29
Medical inflation (%)				
South Africa		**9.00**	9.00	9.25
Expense inflation (%)				
South Africa		**6.00**	6.00	6.25
United Kingdom		**3.27**	3.35	3.25
Pre-tax investment return (%)				
South Africa	– Cash	**8.50**	8.50	8.75
	– Life and Invest bonds	**10.00**	10.00	10.25
	– Health and Vitality bonds	**9.25**	9.50	9.50
	– Equity	**13.50**	13.50	13.75
United Kingdom	– VitalityHealth investment return	**1.29**	1.31	1.28
	– VitalityLife investment return	**2.01**	2.10	2.13
Income tax rate (%)				
South Africa		**28**	28	28
United Kingdom – long term[1]		**17**	17	17
Projection term				
– Health and Vitality		**20 years**	20 years	20 years
– Life		**No cap**	No cap	No cap
– Group Life		**10 years**	10 years	10 years
– VitalityHealth[2]		**20 years**	20 years	20 years

1 The United Kingdom Corporation tax rate assumed is 20% in 2017, 19% in 2018 to 2020, and 17% beyond that.
2 VitalityHealth policies are projected for 20 years from the original date of inception.

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 set with reference to the capital structure of the Group and the observed beta calculated using daily returns over a long time period. The beta is calculated with reference to the ALSI. The resulting assumed beta will be fixed at this level unless the observed beta calculated using daily returns over a long time period departs significantly from this 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, augmented by industry information.

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.

The South African investment return assumption for Life and Invest and Health and Vitality was based on a single interest rate derived from the risk-free zero coupon government bond yield curve. Other economic assumptions were set relative to this yield. 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 and VitalityLife was based on the single interest rate derived from the risk-free zero coupon sterling yield curve. The United Kingdom expense inflation assumption was set in line with long-term United Kingdom inflation expectations.

It is assumed that, for the purposes of calculating the cost of required capital, the Life and Invest required capital amount will be backed by surplus assets consisting of 100% equities and the Health, Vitality, VitalityHealth and Vitality Life Limited required capital amounts will be fully backed by cash. 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. Allowance has been made for tax and investment expenses in the calculation of the cost of required capital. In calculating the capital gains tax liability, it is assumed that the portfolio is realised every 5 years. The Life and Invest cost of required capital is calculated using the difference between the gross of tax equity return and the equity return net of tax and expenses. The Health, Vitality, VitalityHealth and Vitality Life Limited cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. The VitalityLife business on the Prudential licence cost of required capital is calculated using the difference between the risk discount rate and the net of tax asset return assumption.

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 revised capital requirements and resources arising from Solvency II in the United Kingdom as can be seen in Table 1 note 2.

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 31 December 2017 to changes in the risk discount rate is included in the tables below.

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

Table 9: Embedded value sensitivity

R million	Adjusted net worth[2]	Health and Vitality: Value of in-force	Health and Vitality: Cost of required capital
Base	5 016	19 246	(358)
Impact of:			
Risk discount rate +1%	5 016	18 107	(391)
Risk discount rate -1%	5 016	20 511	(321)
Lapses -10%	4 883	19 907	(375)
Interest rates -1%[1]	3 873	19 357	(343)
Equity and property market value -10%	4 999	19 246	(358)
Equity and property return +1%	5 016	19 246	(358)
Renewal expenses -10%	5 098	21 177	(332)
Mortality and morbidity -5%	5 195	19 246	(358)
Projection term +1 year	5 016	19 551	(364)

1 All economic assumptions were reduced by 1%.
2 The sensitivity impact on the VitalityLife net of tax change in negative reserves is included in the adjusted net worth column.

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

Table 10: Value of new business sensitivity

R million	Health and Vitality: Value of new business	Health and Vitality: Cost of required capital
Base	402	(14)
Impact of:		
Risk discount rate +1%	367	(15)
Risk discount rate -1%	440	(13)
Lapses -10%	425	(15)
Interest rates -1%[1]	408	(14)
Equity and property return +1%	402	(14)
Renewal expenses -10%	466	(13)
Mortality and morbidity -5%	402	(14)
Projection term +1 year	411	(14)
Acquisition costs -10%	414	(14)

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
27 358	(843)	5 849	(288)	5 238	(810)	**60 408**	
24 458	(739)	5 484	(382)	4 949	(953)	**55 549**	(8)
30 947	(975)	6 254	(184)	5 561	(620)	**66 189**	10
29 603	(900)	6 531	(309)	5 492	(922)	**63 910**	6
27 920	(911)	6 234	(287)	5 263	(1 272)	**59 834**	(1)
27 011	(842)	5 849	(288)	5 238	(810)	**60 045**	(1)
27 675	(843)	5 849	(288)	5 238	(810)	**60 725**	1
27 728	(842)	6 255	(288)	5 283	(788)	**63 291**	5
29 096	(828)	6 803	(288)	5 304	(802)	**63 368**	5
27 422	(843)	5 849	(288)	5 238	(810)	**60 771**	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
716	(37)	12	(23)	247	(28)	**1 275**	
563	(33)	(19)	(31)	192	(29)	**995**	(22)
903	(43)	48	(15)	308	(22)	**1 606**	26
871	(40)	80	(25)	349	(36)	**1 609**	26
755	(40)	47	(23)	233	(46)	**1 320**	4
736	(37)	12	(23)	247	(28)	**1 295**	2
736	(37)	58	(23)	281	(26)	**1 442**	13
782	(37)	86	(23)	290	(26)	**1 460**	15
718	(37)	16	(23)	247	(28)	**1 290**	1
784	(37)	29	(23)	293	(28)	**1 418**	11

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Company tax reference number: 9652/003/71/7

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JSE share code: DSBP ISIN: ZAE000158564
JSE bond code: DSY01 ISIN: ZAG000148362
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