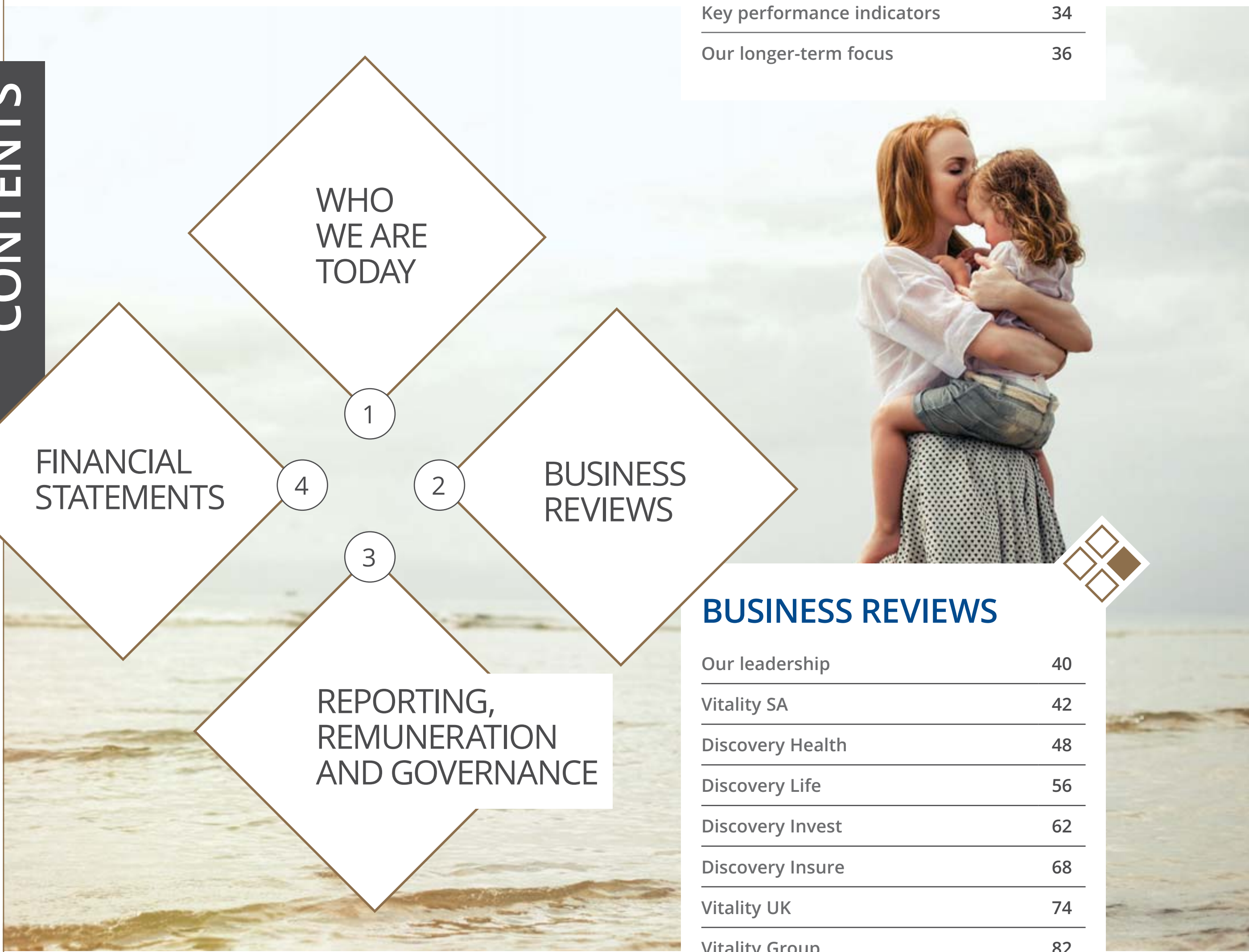
2018

DISCOVERY INTEGRATED ANNUAL REPORT

CONTENTS

WHO WE ARE TODAY



BUSINESS REVIEWS

REPORTING, REMUNERATION AND GOVERNANCE

FINANCIAL STATEMENTS

WHY DO WE EXIST?

We set our core purpose at inception 26 years ago – **to make people healthier and enhance and protect their lives.**

WHAT DO WE OFFER?

- Life insurance
- Short-term and commercial insurance
- Long-term savings and investment
- Health insurance
- Intention to enter banking

WE OPERATE IN

19
countries

HOW DO WE DO THIS?

Our core purpose has manifested in a globally relevant Shared-Value Insurance model, with Vitality at the centre, which creates value for our businesses, clients and society.

WE IMPACT

17.8 million **lives** globally and
8.9 million **lives** on Vitality across all markets

MEMBERS

Improved health, and better value through improved price and benefits

SOCIETY

Healthier society

Improved productivity

Reduced healthcare burden

INSURER

Lower claims

Higher margins

Positive selection and lower lapses

Indicates where further information can be found in this report.

Indicates where further information can be found on our website, **www.discovery.co.za**.

Snapshot of our performance and evolution

Five years ago, we set Ambition 2018 – **to be the best insurer in the world and a powerful force for social good.** To achieve this, we set a number of stretch targets.

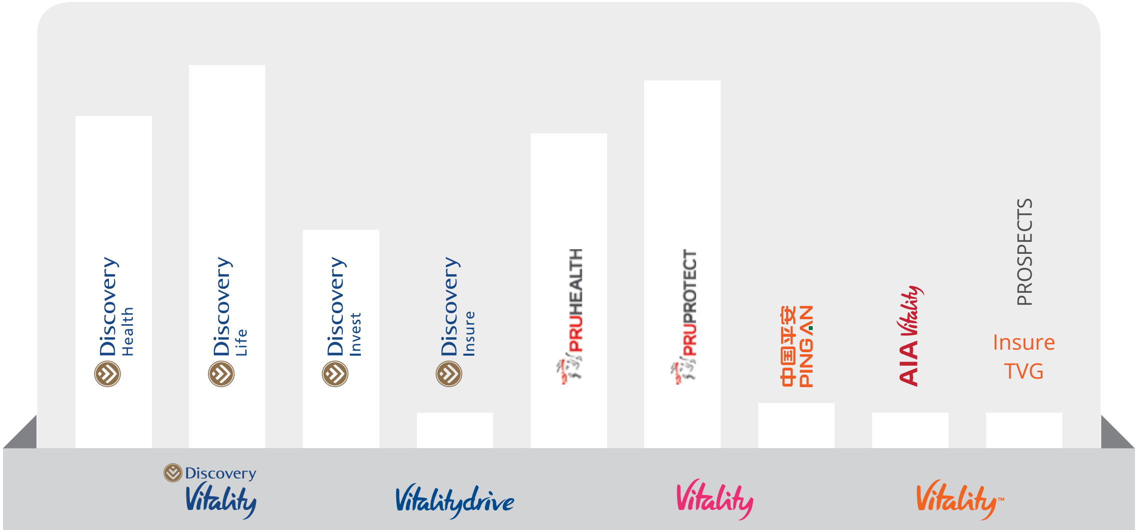
OUR PERFORMANCE IN

2013

Business model largely focused on primary market of South Africa, with initial expansion into secondary and partner markets

NORMALISED OPERATING PROFIT
R4 billion

OPERATIONAL IN
five countries

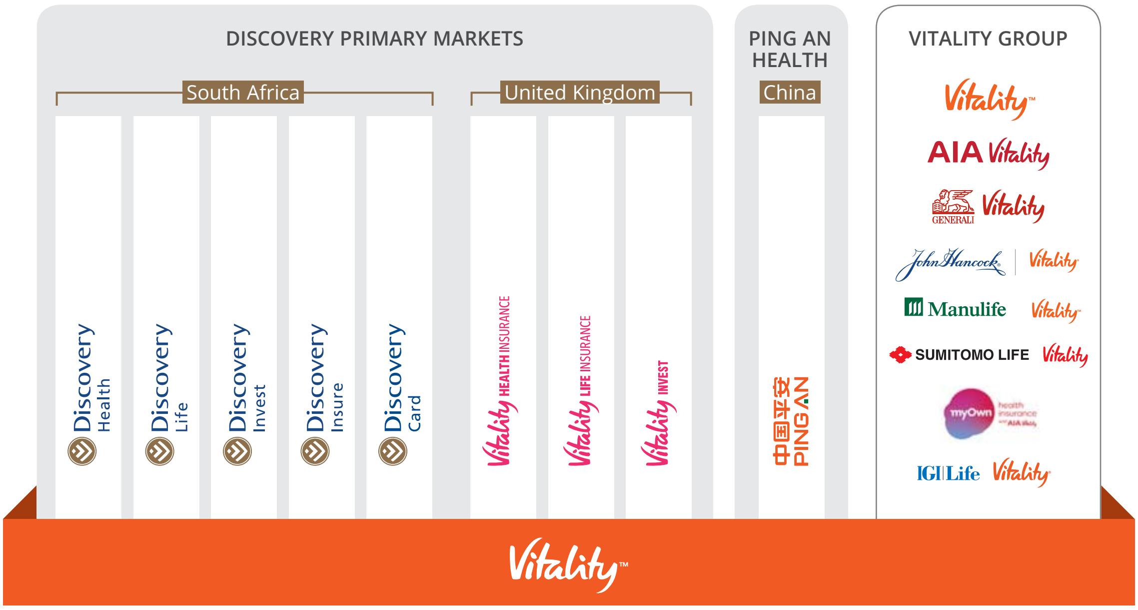


2018

Business model results in world's largest platform for behaviour change, benefiting global partner insurers

NORMALISED OPERATING PROFIT
R8.3 billion

OPERATIONAL IN
19 countries
with more in the pipeline



We operate in **19 countries** and impact **3 million lives** through insurance linked with Vitality, and **5.9 million lives** with Vitality as a stand-alone product.

A total of **8.9 million lives** are impacted by Vitality around the world.

In 2018, we moved into new headquarters in South Africa to house more than **7 000 employees** in one building. 1 Discovery Place is the largest new building to receive a **five-star rating from the Green Building Council of South Africa.**

The Discovery Foundation has, since 2006, invested over **R210 million** towards South Africa's healthcare system.

44 community health projects received support worth **R32.1 million** from the Discovery Fund in 2017/2018.

Our employees volunteered more than **10 000 hours** of their time, creating over **R1.8 million** in value for beneficiary organisations in 2017/2018.

Efma-Accenture named Discovery Life as the **silver winner in two categories for innovation in its insurance products,** the Managed Care Integrator and the Global Education Protector.

Normalised operating profit

UP

17%

to R8.3 billion

Normalised headline earnings

UP

16%

to R5 401 million

Core new business

UP

10%

to R16 137 million

The Group generated

R10.6 **billion**

in cash from in-force businesses

After payment of tax, dividends and interest on debt,

R7.8 **billion**

invested in new business and R2 billion in new initiatives

Three substantial new businesses

were launched in the period and the Group is on track to launch Discovery Bank to market

Read more about our performance against Ambition 2018 on **page 32**.

Read more about our financial performance in the review from our Financial Director on **page 10.**

Read more about our business-specific performance in the business reviews from **page 39**.

REVIEW FROM ADRIAN GORE

DISCOVERY CHIEF EXECUTIVE

Discovery's core purpose of making people healthier and enhancing and protecting their lives manifests in our pioneering Shared-Value Insurance model, whereby value is created and shared with clients, the business and society.

Read more about the Group's performance and other highlights of each business in this report from **page 39**.

Ambition 2018 has been a powerful driver of Group strategy and performance

Our model has been successful in a range of adjacencies and markets, leading to our strong conviction that it is disruptive and differentiating, as well as a positive force for good in society. Based on this confidence, we set a bold ambition for 2018 measured against the metrics of financial and social impact, brilliant businesses and a unique foundation. The Group has made great progress against these metrics: the Shared-Value Insurance model is scaleable, repeatable and globally relevant; and our earnings, return on capital and membership numbers are close to their targets – despite these being stretch goals. Importantly, Ambition 2018 has been an excellent driver of our strategy and has led to disciplined models for organic growth, capital and cash management. These targets have also seen us evolving the Shared-Value Insurance model and building a strong portfolio of diversified businesses.

In terms of social impact, we are now operating in 19 countries through partnerships with leading insurers. Work is ongoing within the Global Vitality Network (GVN), a central function aimed at developing the Shared-Value Insurance model and leveraging its data capabilities and influence to maximise our reach and impact. Progress was made over the period in developing a central Research and Development function, extending global reward partnerships, and initiating a global communications campaign. Importantly, the Vitality One technology infrastructure went live over the period, offering a globally unified systems architecture to partner insurers. We continue to invest substantially to build the network's capability and scale.

The Group has made great progress against the metrics for Ambition 2018: the **Shared-Value Insurance model** is scaleable, repeatable and globally relevant; and our earnings, return on capital and membership numbers are close to their targets – despite these being stretch goals. Importantly, Ambition 2018 has been an excellent driver of our strategy and has led to disciplined models for organic growth.

Read more about regulatory developments impacting the healthcare industry in the Discovery Health business review on **page 48**.

Read more about Ambition 2018 on **page 32**.

A considerable focus was placed on the build and development of Discovery Bank over the past year, which is largely on track and within budget. Discovery Bank has achieved major milestones in record-breaking time, gaining key licences from regulatory bodies and membership to industry associations. We also reached an important agreement regarding the Bank's shareholding, the details of which our Financial Director, Deon Viljoen, shares on page 20.

The Discovery Card is an asset in this regard, with excellent financial performance over the year and clients exhibiting a substantially better risk profile than the market average, which bodes well for the Bank.

All businesses performed strongly and are positioned for continued growth

Discovery has built up a strong portfolio of businesses at different maturity levels, which all performed excellently during the year under review. Every business grew its operating profit, and virtually all were cash-generative with total non-economic positive experience variances, and returns on capital at, or approaching, the Group target.

In the South African market, Discovery Health delivered excellent results, with strong operating profit growth of 11% to R2 777 million and new business growth of 8% to R6 573 million (excluding take-on of new closed schemes). Discovery Health's mandate remains to provide its members with access to high-quality, affordable healthcare on a sustainable basis while also assisting in enhancing the healthcare system for all South Africans. In this regard, there were three major themes during the past year: Discovery Health's response to regulatory developments; its efforts to curb the impact of steep medical inflation by providing better value for money and deflationary administration fees; and the development of a richer, more integrated value offering for employees and employers.

Discovery Life focused on quality, prudence and efficacy and grew earnings by 7% to R3 837 million. In addition, we increased new business market share in the retail affluent protection segment. Innovation over the period included the Global Education Protector being recognised as one of the most innovative life insurance products globally, while the new Purple Life plan led to a 23% increase in policies with cover of over R10 million. Considerable focus was also applied to financial and actuarial management and assumptions, which is covered in more detail in the review from our Financial Director, Deon Viljoen, on page 10.

Discovery Invest's performance was robust in an environment of weak financial markets, growing operating profit by 19% to R885 million. The emphasis was to continue to utilise the Shared-Value Insurance model in long-term savings to shift behaviour toward saving earlier, saving more, and drawing down less in retirement. This, combined with efficient asset management structures, yielded excellent results for clients while maintaining and enhancing margins.

Discovery Insure had an excellent and seminal period with a strong shift to profitability, generating a full-year profit of R68 million. The Shared-Value Insurance model has demonstrated remarkable results in selection, behaviour change and selective lapsation in the personal lines market, positioning us well for future growth.

An important extension of the model in South Africa in the past year was the launch of Discovery for Business, where Discovery Health, Discovery Insure and Discovery Invest launched products aimed at the commercial sector. Underlying this is a belief that more robust businesses inherently represent better risks, and that a key part of this is creating powerful employee solutions. Discovery Business Insurance offers cover for modern risks; rewards drivers and fleet owners for driving well; and partners with global business accelerator, Endeavor, to offer a curated market place with business development partners.

As demonstrated through our performance, the Group is strongly positioned for continued growth, with an excellent set of diversified businesses, many of which have significant potential.

The Group also leveraged its range of sponsorship assets and mass participation events to extend the engagement and reach of Vitality, **bringing to life our core purpose of making people healthier.**

Read more about the performance of Vitality UK on **page 74**.

The further growth of Vitality Group has three main strategies, which have been outlined in the business review on **page 82**.

HealthyCompany is a digitally-enabled, comprehensive employee assistance programme and wellness solution that identifies and proactively supports employees. The Discovery Invest retirement funds product enables employees to retire comfortably through better choices and boosted retirement savings and while the Group Risk offering protects employees and their families from unforeseen circumstances, and rewards them for getting healthier.

In the UK, Discovery's composite business is gaining scale and total lives grew by 11% to 1.1 million. The launch of VitalityInvest and the exceptional performance over the period have created considerable opportunity for continued growth. VitalityInvest brings together behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and look after their health. Our successful delivery relies on bespoke financial planning and cash flow modelling tools built on Vitality's proprietary research and data on life expectancy. This has been developed in collaboration with academic partners such as the University of Cambridge and RAND Europe.

Vitality continued to see positive member engagement and high levels of benefit utilisation, and made ongoing investments in its brand. Vitality UK added Disney in a partnership aimed at children, signed on two new ambassadors, and extended its presence and sponsorship in cricket and football, as well as becoming the Official Wellness Partner of England Hockey. VitalityHealth performed outstandingly, largely due to the additive effects of the model and the various interventions over the past few years. VitalityLife had an important period with the business completely re-engineering itself for the low interest rate environment.

Vitality Group had an exceptional year, transitioning to profitability and insurance partners' membership increasing by 91%, with total Vitality Group membership reaching 1.56 million (full Vitality members).

A significant development was the launch of Vitality with Sumitomo Life in Japan. Vitality Group is well positioned for growth, with a codified model for creating maximum value per market.

Ping An Health, in which Discovery owns a 25% stake, had a phenomenal year, with new business growing by 87% to RMB 2.9 billion and revenue growing by 80% to RMB 4.9 billion. Ping An Health's growth and strategy is being driven by five important factors: China's health insurance market is expected to continue growing significantly; the potential to extract more value from distribution by using technology; adapting product strategies to market realities; investments into scaling operations; and increasing the sophistication of risk management to ensure sustainability.

As demonstrated through our performance, the Group is strongly positioned for continued growth, with an excellent set of diversified businesses, many of which have significant potential.

The excellent performance of each of our businesses has been supported to a large extent by innovative marketing efforts, particularly investments in digital marketing. Beyond advertising, the Group leveraged its range of sponsorship assets and mass participation events to extend the engagement and reach of Vitality, bringing to life our core purpose of making people healthier.

For example, the inaugural Vitality Run Series in Johannesburg in 2017 attracted thousands of participants competing in four consecutive races, with the concept expanded to Cape Town and repeated in Johannesburg this year. Move to Give has also elevated the social role of our behavioural asset, Active Rewards, by giving Vitality members the opportunity to donate the value of their weekly activity rewards to charity.

The **Discovery Foundation** has invested in improving **South Africa's healthcare ecosystem**. The Foundation supports government in addressing the critical shortage of medical graduates and specialist skills, and since 2006 has **invested more than R210 million** in 400 recipients.

The Group continued to focus on being a force for social good

Discovery's principal means of improving society is through the value created and shared by our business model, improving the health and wellbeing of millions of clients around the world. We have seen the dynamics of the Shared-Value Insurance model manifest across all industries: in life insurance, the model leads to a 20% better claims experience (compared to non-Vitality) and more than 50% lower mortality risk for highly-engaged members; in health insurance, it leads to lower hospital costs and lower rates of chronic conditions among initial engagers; in motor insurance, it leads to 15% better driving behaviour and 60% lower lapse rates; and in long-term investments, it leads to more responsible management of income drawdowns in retirement.

In addition to Discovery's shared-value product offering, the Discovery Foundation has invested in improving South Africa's healthcare ecosystem. The Foundation supports government in addressing the critical shortage of medical graduates and specialist skills, and since 2006 has invested more than R210 million in 400 recipients (296 individuals and 104 institutions). In the 2017/2018 financial year, the Foundation approved over R14.4 million towards 15 Academic Fellowship and Sub-specialist awards; R2.1 million for one Discovery Foundation Massachusetts General Hospital Award; R1 million for one Excellence Award; and R8.3 million for 34 awards for rural areas.

Complementing the Foundation, the Discovery Fund focuses on strengthening healthcare systems by creating access to primary healthcare through skills development and primary healthcare service delivery. In the year, the Fund provided R32.1 million to 44 organisations, of which R8.8 million was allocated towards maternal and child health interventions. Other projects include community health; skills development and flagship initiatives.

Significant investment in our people is an ongoing priority

Discovery believes in the power of its people and is committed to liberating the best in them. This includes recruiting the best person for every role and ensuring they are highly engaged, with dedicated development programmes at every level.

From a recruitment perspective, over the past two years we have focused on embedding the Discovery Future Leaders Campus Recruitment drive.

In 2019/2020, this recruitment drive will be extended to broader specialisations including marketing, finance, HR, data sciences and clinical, and will be hosted as an integrated Discovery Career Day event at selected campuses.

The Fellowship Award is a flagship talent programme in Discovery, which aims to discover, nurture and grow the country's top actuarial talent. Universities in South Africa nominate their top five Honours students in actuarial science who are entered into a rigorous assessment process. Although only one Fellow is ultimately selected, the aim is to offer all participants permanent employment as actuaries in Discovery. In 2018, we hosted 19 participants from four universities, with 11 joining Discovery in 2019.

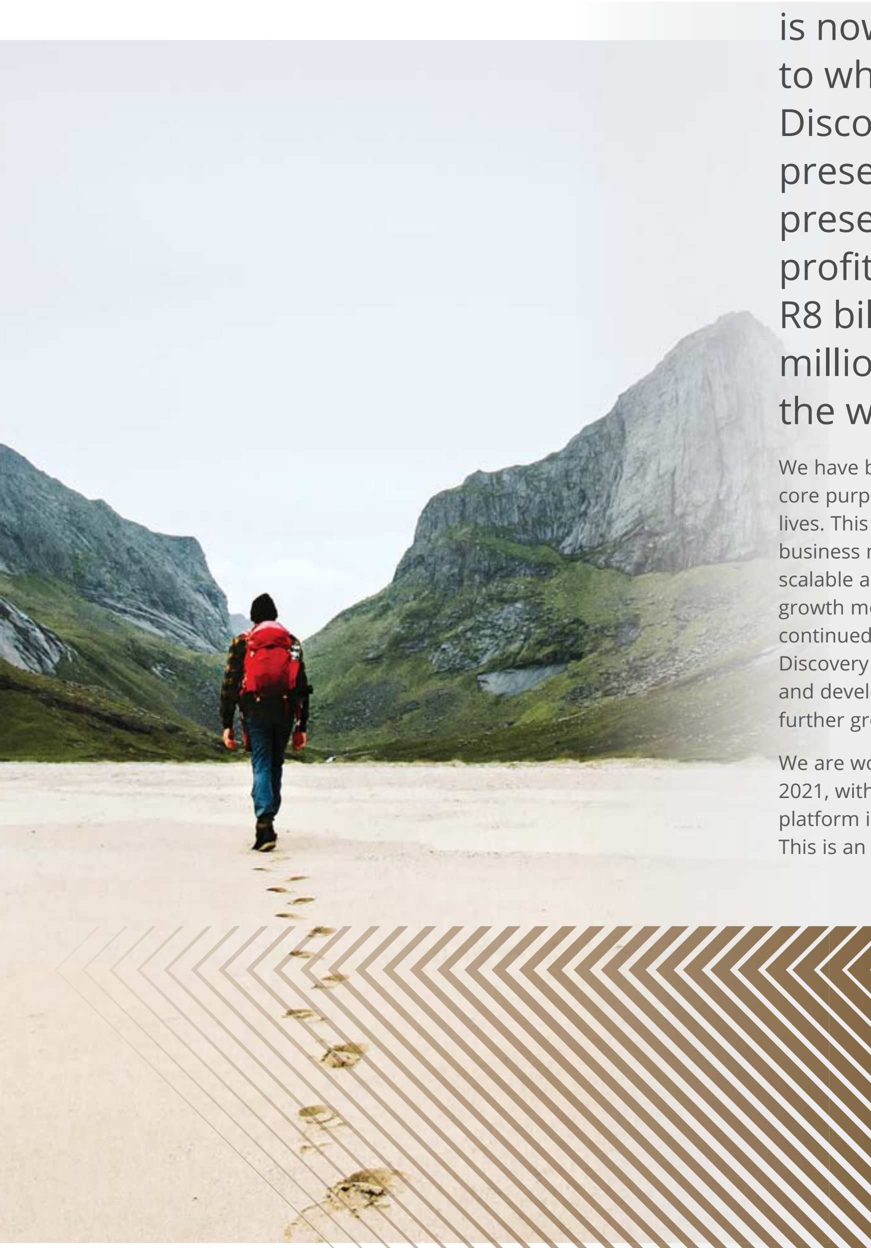
On the IT skills front, Gradhack invites third-year and Honours information technology students from across the country to submit business cases to be developed by small teams. Up to 30 students are hosted in Johannesburg over four days, with a final hackathon taking place over 48 consecutive hours. In 2018, we hosted the largest group since the hackathon's inception – a total of 36 students from eight universities – and offered 33 students positions, with 25 joining Discovery in 2019.

Discovery has set a bold ambition to be the Healthiest Company by 2020, and a three-year plan was implemented in 2017, starting with foundational interventions. The individual employee journey was launched in May 2018 and employees selected over 10 000 wellbeing goals for the year, which will be supported by Vitality, HealthyCompany and Employee Programmes.

Discovery has a compelling vision for its transformation agenda and a robust strategy focusing on management control, employment equity, access to financial services and empowerment financing. As a growing company, we have many opportunities for exceptional black talent, including the newly formed Bank, to add value, grow and achieve career aspirations. Discovery Limited is certified as a Level 3 contributor on the new Financial Sector Codes (FSC) scorecard.

We have completed a succession planning exercise for all critical skills across the Group and are satisfied that we have enough coverage in terms of talent. We conduct two strategic talent reviews each year to monitor progress and hold CEOs accountable for their development.

Discovery has a compelling vision for its **transformation agenda** and a **robust strategy** focusing on management control, employment equity, access to financial services and empowerment financing. **As a growing company,** we have many opportunities for exceptional black talent, including the newly formed Bank, to **add value, grow and achieve career aspirations.**



Looking ahead

Under the guiding framework of Ambition 2018, the organisation is now fundamentally different to what it was five years ago. Discovery evolved from being present in five countries to being present in 19; from an operating profit of R4 billion to more than R8 billion, as well as reaching millions of customers around the world.

We have built the organisation on a simple but profound core purpose that puts us at the centre of our clients' lives. This focus on our core purpose has resulted in a business model geared to creating shared value, and a scalable and repeatable business model globally. Discovery's growth model and philosophy have revealed the need for continued investment in major new growth initiatives such as Discovery Bank and VitalityInvest, and we continue to look for and develop new, transformative opportunities to drive further growth.

We are working hard to finalise the next Group strategy to 2021, with a vision to become the largest behavioural platform integrated with financial services in the world. This is an exciting and formative time for Discovery.

REVIEW FROM

DEON VILJOEN

DISCOVERY
FINANCIAL DIRECTOR

I am pleased to present the Discovery annual financial results for the year ended 30 June 2018.

The review of operations and strategic discussions are contained in Group Chief Executive, Adrian Gore's report, on page 04 and operational reviews are available from page 39. This report specifically provides a high-level overview and more technical analysis of the financial statements.

In addition, we have various discussion documents (unaudited) to assist further in the understanding of the application of our accounting policies and financial disclosures.

Visit **www.discovery.co.za/corporate/investor-relations** and page down to Financial results and reports, Annual/Interim Results, 2018, Additional Information.

During the year, each of our businesses grew operating profit. With the exception of VitalityLife in the United Kingdom, all our established businesses generated positive cash flow, showed overall non-economic positive experience variances, and had a return on capital at or near the Group target of risk-free +10%.

Our foundation and Shared-Value Insurance model described on page 30 continued to create a competitive advantage across markets, despite economic complexity and volatility in both our primary markets, South Africa and the United Kingdom. Our foundation and model assisted in the delivery of strong results for the 12 months ended 30 June 2018, with excellent earnings growth, strong cash generation and continuing investment in organically growing new initiatives and developing new businesses.

These are the main highlights, with an explanation of factors that contributed to the performance.

Key performance highlights are available on **page 34**.

Normalised headline earnings*
UP
16%
to R5 401 million

Core new business Annualised Premium Income (API)**
UP
10%
to R16 137 million

Embedded value
UP
15%
to R65 624 million

Return on equity exceeded risk-free + 9%,
despite considerable investment in new businesses

Our established businesses, Discovery Health, Discovery Life, Discovery Invest and Vitality UK, delivered combined growth in operating profit of 14%. This is well above the Group's long-term target of consumer price index (CPI) + 5% for the established businesses, with VitalityHealth the outstanding performer at 108% growth in operating profit.

In addition, emerging businesses, Discovery Insure, Vitality Group and Ping An Health exceeded their targeted earnings growth of CPI + 30%. Discovery Insure (excluding the commercial offering), Vitality Group and Ping An Health are well beyond the breakeven point, largely in line with their business plan.

* *Normalised headline earnings would have shown a 20% increase to R5 609 million, excluding the impact of the finance lease accounting in relation to the commencement of a 15-year lease at 1 Discovery Place during the period. See page 14 for the accounting treatment.*

** *Excludes Discovery Health's take-on of new closed medical schemes and gross revenue of Vitality Group. Read these business reviews on page 48 and page 82.*

1 Growth methodology

We focus on organic growth and expansion into adjacent geographies and sectors using our Shared-Value Insurance model. Our growth and expansion plan is guided by an earnings growth methodology, outlined here:

Established businesses

Our established businesses are defined as:

Businesses that have a proven track record of profitability of at least three years and are cash flow positive before investment in new business.

For established businesses we target:

Operating profit growth of CPI + 5%

Our established businesses continue to show strong operating profit growth. During the year, these businesses delivered a combined 14% growth in operating profit, which is CPI + 9%.

Emerging businesses

Emerging businesses are defined as:

Businesses that have achieved sufficient scale to be profitable currently, or in the near future, but are not yet cash flow positive or material in terms of cash generation for the Group.

For emerging businesses we target:

Profit growth of CPI + 30%

Potential to ultimately develop into established businesses with a targeted profit growth of CPI + 5%.

All emerging businesses turned profitable over the period and have significant future potential.

New initiatives

We make substantive investments of approximately 10% of earnings in new initiatives.

HOW WE PERFORMED AGAINST OUR GROWTH METHODOLOGY

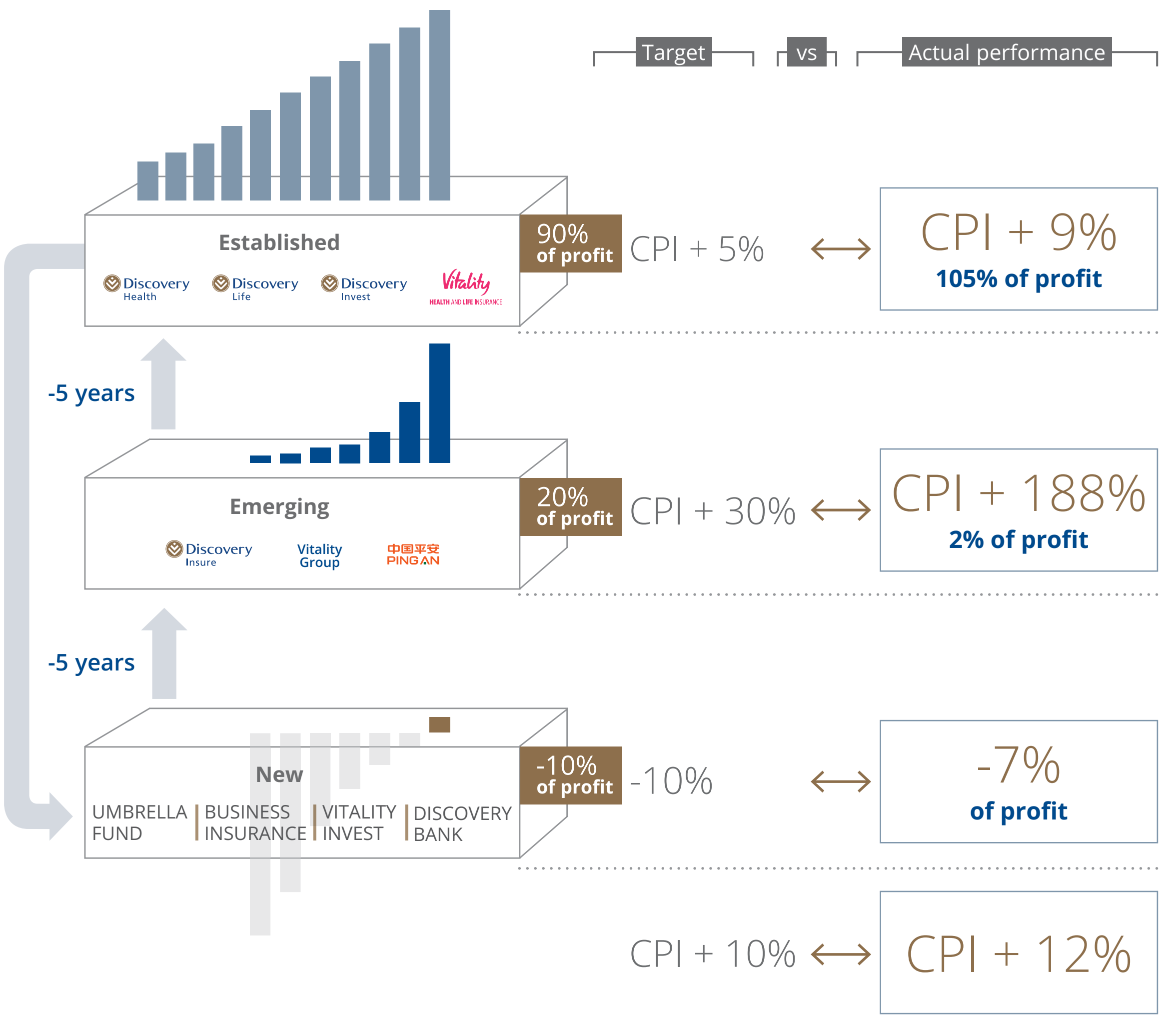
The established businesses delivered aggregate growth in operating profit of 14% to R8 661million (2017: R7 630 million), exceeding the target of CPI + 5%.

The emerging businesses achieved aggregate growth in operating profit of 193% to R158 million (CPI + 188%), exceeding the target of CPI + 30%, and all turning profitable during the financial year.

7% of earnings was invested in new initiatives, including Umbrella Funds, VitalityInvest and Discovery Insure for Business (Discovery Insure's commercial insurance offering). These were all launched during the year. Significant investment was also made in developing Discovery Bank. The majority of these costs have been capitalised ahead of the launch, which is expected to take place before the end of the 2018 calendar year.

Refer to **page 20** for more information on Discovery Bank.

Performance largely in line with growth methodology targets



2 Capital management philosophy

Our capital management framework has three components:

STATUTORY OR REQUIRED CAPITAL
Regulated entities are capitalised in line with regulatory solvency requirements.

ALLOCATED CAPITAL
Robust and prudent five-year business plans ensure that assets are available to the Group to meet funding requirements for all known strategic initiatives.

BUFFER
An additional buffer of between R1 billion to R2 billion is held at the centre.

STATUTORY OR REQUIRED CAPITAL
Regulated entities are capitalised in line with regulatory solvency requirements calibrated to withstand a one-in-200-year adverse event. We apply an additional buffer to ensure that after a one-in-25-year adverse event we still remain compliant with the regulatory requirements.

The implementation of the Solvency Assessment and Management (SAM) framework was effective from 1 July 2018 and is expected to result in a significant release of capital from Discovery Life. This will result in a lower level of assets being held and decreased associated investment income, although improving the business' return on capital.

The table below summarises the minimum statutory capital requirements for each material Group entity and the solvency capital actually held as a percentage of this requirement, as at 30 June:

ALLOCATED CAPITAL
Based on robust, prudent five-year business plans, allocated capital is the amount of liquid and tangible assets across the Group required to meet funding for all known strategic initiatives, over and above the capital required for regulated entities. This includes funding required for all growth initiatives including new business strain and development costs, with explicit buffers for prudence and a general margin for uncertainty.

In capital allocation decisions, reference is made to the Group's required hurdle rate of risk-free + 10%. The return on equity (ROE) for the year ended 30 June 2018 was 16.5% (2017: 14.4%) despite considerable investment in new businesses over the past few years.

BUFFER
Discovery aims to have an additional general buffer on a Group-wide basis of R1 billion to R2 billion at all times. At 30 June 2018, we maintained a buffer within guidance of R1.7 billion (2017: R1.6 billion).

FUNDING
The funding of the above capital plan and buffer are sourced internally from retained earnings and externally from Financial Reinsurance (FinRe) and debt (subject to a maximum 28% Financial Leverage Ratio policy detailed on page 14 and 15).

			Actual solvency	
Insurance operations	**Jurisdiction**	**Statutory solvency requirement**	**2018**	2017
Discovery Life	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**3.5 times**	3.9 times
		1 x Solvency Capital Requirements under SAM[1]	**1.7 times**	
Discovery Insure	South Africa	1 x Statutory Capital Adequacy Requirement (CAR)	**2.0 times**	2.2 times
		1 x Solvency Capital Requirements under SAM[1]	**1.6 times**	
VitalityHealth	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**1.4 times**	1.5 times
VitalityLife	United Kingdom	1 x Solvency Capital Requirement under Solvency II	**1.9 times**	2.1 times

1 For illustrative purposes: SAM effective from 1 July 2018.

3 Borrowings

As part of the capital management process, the Group monitors its capital structure in line with a Financial Leverage Ratio (FLR) policy.

FLR IS CALCULATED AS:

$$\frac{\text{Total debt}}{\text{Total debt + total equity}}$$

The Group's strategy is to maintain a prudent FLR broadly in line with industry norms. In line with Discovery's risk appetite statement, an FLR of less than 28% needs to be maintained. This was achieved during the year, with an FLR of 25.8% at 30 June 2018.

The table below summarises the FLR at 30 June 2018:

R million	2018	2017
– Borrowings at amortised cost[1]	**10 842**	8 524
– Amount owed to Prudential Assurance Company Limited	**2 189**	3 080
– Guarantees issued for reinsurance contracts	**50**	171
Total debt and guarantees	**13 081**	11 775
Total equity	**37 594**	32 290
Financial leverage ratio (%)	**25.8%**	26.7%

1 *For the FLR calculation this is reduced by the head office lease liability.*

An analysis of borrowings at amortised cost is provided below:

R million	2018	2017
SA borrowings	**7 240**	4 600
UK borrowings	**1 810**	2 174
Redeemable preference shares	**1 402**	1 400
Finance lease liability	**3 621**	349
– Head office lease[1]	**3 237**	
– Other finance lease liabilities	**384**	349
Bank overdraft	**6**	1
Total	**14 079**	8 524

1 *Read Finance lease liability in relation to our head office, 1 Discovery Place.*

Finance lease liability in relation to our head office, 1 Discovery Place

Discovery has entered into a 15-year lease agreement to occupy our new head office. We began occupancy of the buildings from November 2017 on a phased approach.

International Accounting Standard (IAS) 17: Leases requires a lessee to classify a lease as either a finance lease or an operating lease at the start of the lease term. A lease is classified as a finance lease if it substantially transfers 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, as the present value of the minimum lease payments amount 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 R3 155 million, which has been disclosed in "Property and equipment" and a corresponding lease liability of R3 621 million (which represents the present value of future lease obligations). Ownership does not transfer to Discovery at the end of the lease period, and the building remains the property of the landlords.

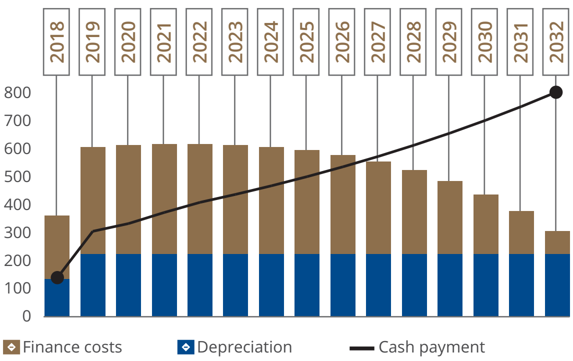
The treatment under *International Financial Reporting Standards (IFRS) 16: Leases*, effective for reporting periods starting on or after 1 January 2019, would result in a similar treatment, with the lease capitalised.

The recognised asset is depreciated over the lease term using the straight-line method, while the recognised liability accrues notional interest and is amortised using the actual cash rentals paid to the landlords.

Normalised profit from operations of individual business units, as per segmental information, includes the market-related rental paid (R128 million) and reverses the depreciation (R126 million) and finance costs (R210 million). Normalised headline earnings include the full finance lease treatment according to IAS 17. This had a negative impact on the overall growth rate of normalised headline earnings for the year (refer to the reconciliation on page 17).

The graph indicates the profile of depreciation and finance charges versus the profile of cash rentals to show the impact of accounting for the building as a finance lease over the next number of years. Although the differences are not normalised in headline earnings, the relevant values will be made available at each reporting period.

1 Discovery Place (R million)



Domestic Medium-Term Note (DMTN) programme

During the year, Discovery registered an unsecured R10 billion DMTN programme.

On 16 November 2017, Discovery came to market for its inaugural DMTN issuance.

The objectives of the debt programme were to:

- broaden our funding base;
- optimise our cost of funding; and
- ensure funding capacity for the Group over a five-year time frame

The first auction was successful, with R1.5 billion JSE Listed Notes issued. The offer was significantly oversubscribed.

Subsequent to year-end, on 29 August 2018 Discovery issued further Floating Rate Notes in terms of its DMTN programme totalling R700 million, bringing the total nominal value in issue under the DMTN programme to R2.2 billion.

Credit rating

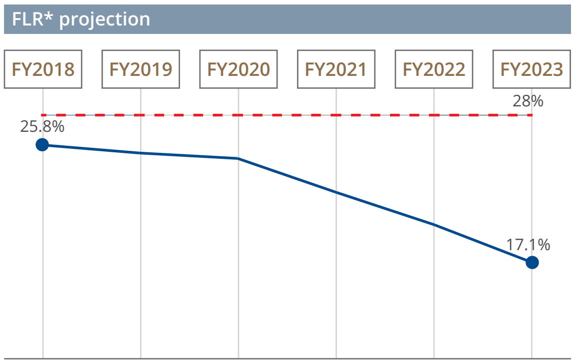
Moody's Investors Service has assigned Ba1 global scale and Aa3.za national scale Long-Term Issuer ratings to Discovery. The outlook for Discovery is stable, in line with that of the Government of South Africa (Baa3, stable).

Key drivers of funding requirements for the next five years

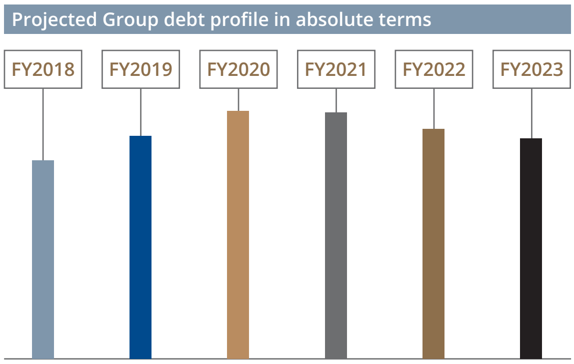
1 to 2 years	VitalityLife new business General corporate purposes including investment in new initiatives
2 to 3 years	Transfer of VitalityLife business from Prudential balance sheet to VitalityLife Limited (Part VII) Refinance maturing South African and United Kingdom bank debt arrangements
3 to 5 years	Refinance maturing South African and United Kingdom bank debt arrangements

In our five-year capital plan, debt levels remain well within the risk appetite as shown in the reduction of the FLR over the projection period in the graph below.

It should be noted that in managing the Group debt profile and FLR, the anticipated funding of the Bank's core deposit-taking and lending activities are excluded.



* *Financial Leverage Ratio (FLR) = Debt (Excluding Lease Liability)/[Debt (Excluding Lease Liability) + Equity].*



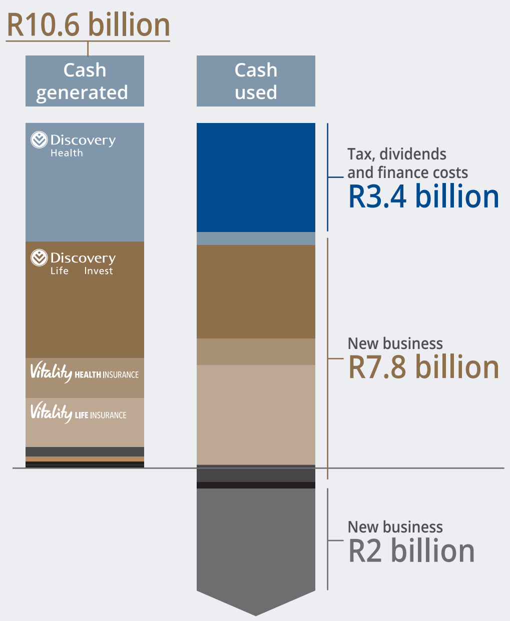
4 Cash management philosophy

The Group has an established framework for its expected cash flow. The framework allows for the maturity of the relevant businesses and any possible regulatory constraints. The framework also makes provision for regulated businesses to build capital resources and for all businesses to continually invest in new business.

During the year, we generated R10.6 billion in cash from in-force businesses. After investing R7.8 billion in new business and payment of tax, dividends and interest on debt (R3.4 billion), we invested R2 billion in new initiatives.

The new business internal rate of return was 26%, while growth in value of new business was 16%.

These investments meet the return criteria of risk-free + 10%. This validates the approach to continue to invest significantly without breaching the FLR of 28% or the cash buffer of R1 billion to R2 billion.



OUR KEY FINANCIAL MEASURES

There are a number of key measures we use to track our growth and performance. These include:

1 | Normalised profit from operations and normalised headline earnings

2 | Embedded value

3 | Solvency

4 | Return on capital

5 | Core new business annualised premium

6 | Value of new business

1 | Normalised profit from operations and normalised headline earnings

To facilitate analysis of the results, we provide normalised results which are adjusted for once-off, non-trading items or accounting adjustments to give a clearer picture of the operating performance of the Group.

Normalised profit from operations reflected in the segmental information (per individual business unit), reflects the cash rental costs of the Group's new building – a different treatment than under IFRS finance lease accounting. We do this because individual business expenses and margins are managed on underlying cash rental costs incurred by each business.

Reconciliation of profit from operations per the income statement to normalised profit from operations:

R million	Group 2018 Audited	Group 2017 Audited	% change
Profit from operations	**8 260**	6 245	32
Shareholder investment income	**(209)**	(150)	
Net realised gains on available-for-sale financial assets	**(10)**	(8)	
Amortisation of intangibles	**123**	171	
Share of profits from equity-accounted investments after tax	**115**	26	
Normalised profit from operations IFRS total per segmental information	**8 279**	6 284	32
VitalityLife IFRS 4 adjustment[1]	**27**	103	
Other normalised profit adjustments	**(40)**	661[2]	
Normalised profit from operations segment total per segmental information	**8 266**	7 048	17

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

2 *R562 million is in relation to deferred tax asset (refer to the Tax and deferred tax note on page 19).*

Reconciliation between earnings, headline earnings and normalised headline earnings:

R million	2018	2017	% change
Net profit attributable to ordinary shareholders	**5 652**	4 411	28
Gains on disposal of property and equipment net of Capital Gains Tax (CGT)	**(3)**	(1)	
Impairment of intangible assets net of tax	**162**	–	
Realised gains on available-for-sale financial assets net of CGT	**(8)**	(6)	
Headline earnings as reported	**5 803**	4 404	32
Accrual of dividends payable to preference shareholders	**1**	(1)	
Amortisation of intangibles from business combinations net of deferred tax	**109**	154	
Deferred tax asset raised on assessed losses	**(352)**	–	
Deferred tax timing difference related to new 'adjusted IFRS' tax basis	**(119)**	–	
Duplicate building costs	**37**	–	
Unrealised gains on foreign exchange contracts not designated as a hedge	**(77)**	–	
Initial expenses related to Prudential Book transfer	**(1)**	–	
Rebranding and business acquisition expenses		99	
Normalised headline earnings	**5 401**	4 656	16

The accounting treatment of the new head office has a significant impact on normalised headline earnings, as detailed in the table below.

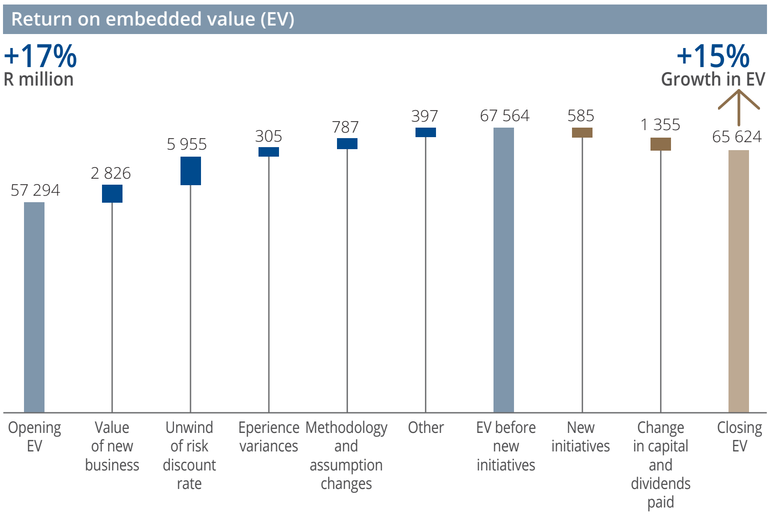
R million	June 2018	June 2017	% change
Reported normalised headline earnings	**5 401**	4 656	16
Finance lease accounting impact	**208**	–	
Market-related cash rental paid	**(128)**	–	
Depreciation	**126**		
Finance costs	**210**	–	
Normalised headline earnings adjusted for finance lease accounting impact	**5 609**	4 656	20

2 | Embedded value

The embedded value (EV) of Discovery (refer to pages 155 to 165) includes the insurance and administration businesses in the Group. Covered business includes business written in South Africa through Discovery Life, Discovery Invest, Discovery Health and Vitality, and in the United Kingdom through VitalityLife and VitalityHealth. No published value has been placed on the current in-force business of other businesses in the Group as these have not reached suitable scale with reliable trends to forecast future experience.

The EV grew by 15% to R65 624 million (2017: R57 294 million) and annualised return on opening EV increased to 16.9% (10.2%).

The components of the change in embedded value:



2 | Embedded value *continued*

We have published the following additional unaudited investor communications on actuarial basis changes and experience variances. Please go to **www.discovery.co.za/corporate/investor-relations** and page down to Financial results and reports, Annual results, 2018, Additional information:

- Changes to Discovery's economic basis – June 2018
- Discovery Life and Invest experience variances
- Embedded value assumptions for VitalityHealth

3 | Solvency

Regulated entities are capitalised in line with regulatory solvency requirements calibrated to withstand a one-in-200-year adverse event. We apply an additional buffer to ensure that after a one-in-25-year adverse event we still remain compliant with the regulatory requirements.

4 | Return on capital

The return on capital target for the Group is risk free + 10%. In addition to the ROE measure discussed on page 13, Discovery's Group new business internal rate of return (IRR) was 26%.

5 | Core new business API

Core new business API (excluding new closed schemes and gross revenue for the Vitality Group) provides a view of the scale of new business across the operations of the Group. Core new business API increased by 10% to R16 137 million (2017: R14 660 million) for the 2018 financial year.

6 | Value of new business (VNB)

The Life businesses pleasingly showed an increase in value of new business and annualised profit margin.

R million	2018	2017	% change
Life and Invest			
Present value of future profits from new business at point of sale after cost of required capital	**1 302**	1 231	6
New business API[1]	**2 773**	2 840	(2)
Annualised profit margin[2]	**5.6%**	5.5%	
Annualised profit margin excluding Invest business	**10.7%**	10.2%	
VitalityLife[3]			
Present value of future profits from new business point of sale after cost of required capital	**349**	306	14
New business API	**898**	844	6
Annualised profit margin[2]	**5.4%**	5.2%	

1 *Life new business is defined as Life policies to which Life became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. Invest new business is defined as business where at least one premium has been received and which has not been refunded after receipt. Invest new business also includes Discovery Retirement Optimiser policies to which Life and Invest became contractually bound during the reporting period, including policies whose first premium is due after the valuation date. The new business annualised premium income of R2 773 million (June 2017: R2 840 million) (single premium Annual Premium Equivalent (APE): R1 195 million (June 2017: R1 169 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business API written over the period, including automatic premium increases of R1 254 million (June 2017: R1 172 million) and servicing increases of R615 million (June 2017: R659 million), was R4 642 million (June 2017: R4 671 million) (single premium APE: R1 248 million (June 2017: R1 277 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 not included as new business. Term extensions on existing contracts are not included as new business.*

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

3 *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.*

OTHER NOTABLE ITEMS

Lease of new building

Discovery has classified the lease agreement for its new head office as a finance lease in terms of IFRS. This accounting treatment has resulted in the recognition of an asset of R3 155 million, which was disclosed in "Property and equipment" and a corresponding lease liability of R3 621 million. The impact of the accounting treatment on earnings is shown on page 14.

Tax and deferred tax

With the promulgation of the South African Insurance Act, No 18 of 2017, in January 2018, the new "adjusted IFRS" tax basis, effective 1 July 2018, was substantively enacted as at 30 June 2018.

As a result, deferred tax has been calculated on this basis and reflects the values at which the tax liabilities will ultimately be settled. A reduction in the deferred tax liability of R119 million was recognised as a timing difference, and has been adjusted for in the calculation of normalised headline earnings.

During the year, a deferred tax asset was recognised on the full balance of the assessed tax loss in Discovery Insure. This is in line with the business proving sustainable profitability and the expectation of future profits. Further amounts were raised during the current year in relation to the VitalityHealth assessed tax losses. These amounted to R243 million and R109 million respectively, and were added back in the calculation of normalised headline earnings.

In the previous financial year, following the introduction of a "Risk Policy Fund" for all new risk business written (effective 1 July 2016), Discovery Life elected to move its existing risk business to this fund. As a result, a portion of the assessed loss of R16.5 billion in the Individual Policyholder Fund is expected to be utilised over time. No deferred tax asset was previously recognised for this assessed tax loss. A value of R562 million, implicit in the valuation of insurance contract liabilities, was recognised as an explicit deferred tax asset in terms of *IAS 12: Income Taxes*. The impact of this recognition on the statement of financial position at 30 June 2017 was an increase in the deferred tax asset of R562 million and a corresponding increase in liabilities arising from insurance contracts. The impact on the income statement for the year ended 30 June 2017 was an increase in transfer from liabilities under insurance contracts of R562 million and a corresponding decrease in income tax expense. Although this impacted the Group's operating profit and tax expense, there was no impact on profit after tax. The net movement in 2018 was not material.

Dividend policy

Discovery's dividend framework considers that although established businesses are expected to pay a dividend similar to other established companies in our sector (equating to 1.5x to 3x cover), the emerging businesses do not pay dividends to the Group, and new businesses are funded from the dividends from established businesses. This framework is a general guideline before considering any other factors.

At Group level, a total dividend cover of 4x is considered appropriate. On this basis, the Board declared a final gross cash dividend of 114 cents per share compared with a final gross cash dividend of 98 cents per share in the prior year.

Potential impact of IFRS standards applicable for 2019 financial year

IFRS 9: Financial Instruments and *IFRS 15: Revenue from Contracts with Customers* are effective for the Group from 1 July 2018. For both these standards, the decision on the transitional approach has not yet been made. The current approach we are considering is the cumulative catch-up approach, which applies the standards retrospectively as if these standards have always applied, but without restating comparative figures. All measurement changes due to the adoption of these standards will be reflected in the opening retained earnings as at 1 July 2018. The transitional approach, as well as the impact on transition, will be presented in the interim results as at 31 December 2018.

In respect of IFRS 9, we are in the process of assessing the classification and measurement of the Group's financial assets. Discovery's implementation of IFRS 9 will result in the removal of the available-for-sale classification for financial instruments. We are evaluating what the measurement impact will be under IFRS 9.

Discovery does not expect significant impairment provisions to be raised due to the short-term nature of financial assets subject to the impairment model and low historical losses suffered.

In respect of IFRS 15, we have performed detailed assessments of the most material contracts within each non-insurance entity in the Group. This was done through a detailed contract checklist, defining each entity's ordinary activities and customers, scoping all contracts with customers and assessing related contracts against the checklist. The most material contracts in each area have been reviewed in detail.

Discovery is currently quantifying the impact of IFRS 15 and the preliminary findings indicate that it is unlikely that there will be a material financial impact on the timing or amount of revenue recognised. However, we expect that there will be an effect on the financial statement disclosure.

IFRS 17: Insurance Contracts

IFRS 17: Insurance Contracts is effective for the Group from 1 July 2021. The standard is expected to have a material impact on the recognition, measurement, presentation and disclosure for insurance contracts. The standard will have a significant impact on underlying valuation models, systems, processes, internal controls and various other fundamental aspects of the insurance business. Discovery has established governance structures relating to the IFRS 17 project and is in the process of performing an impact assessment of applying the requirements of IFRS 17.

Translation impact of the rand exchange on income from operations outside South Africa

The Group's net income from operations outside South Africa is translated into rand at the weighted average exchange rates for consolidation purposes.

Average exchange rate	**2018**	2017	% change
Rand/GBP	**17.33**	17.29	–
Rand/USD	**12.86**	13.61	(6)
Rand/RMB	**1.98**	2.00	(1)

Update on Discovery Bank

As outlined on SENS on 16 October 2017, we received a banking licence issued by the Registrar of Banks (now the Chief Executive Officer of the Prudential Authority, South African Reserve Bank). At the time, we also advised that the approval from the Registrar contained certain conditions relating to the shareholding of Discovery Bank, the impact of which was being considered by all affected parties.

A condition relating to the shareholding of Discovery Bank imposed by the Registrar is that the proposed 25.01% ultimate cross-holding in Discovery Bank by FirstRand Investment Holdings Limited (FRIHL) should be reduced and ultimately exited over a period of time.

Given this condition, Discovery and FRIHL have since agreed that it would be preferable for FRIHL to exit entirely as soon as practically possible.

The proposed transaction concluded subsequent to year-end includes:

- the acquisition of the effective 25.01% interest of FRIHL in Discovery Bank;
- acquiring the remaining 25.01% economic interest that FirstRand Bank currently owns in the Discovery Card joint venture; and
- Discovery Bank acquiring all rights to the Discovery Card book and related assets which will be migrated over time.

The transaction is subject to approval by certain regulatory authorities, including the Prudential Authority and the Competition Authorities.

The total combined acquisition price payable by Discovery to the FirstRand Group will be R1.8 billion.

Purchase price	**R1.8 billion**
25.01% of the Discovery Card joint venture	**R0.7 billion**

+

25.01% shareholding in Discovery Bank	**R1.1 billion**

Discovery has advised that it plans to pursue existing growth initiatives without recourse to additional capital. As demonstrated by our performance during the period under review, the Group and its growth initiatives have delivered strongly, and the capital plan has evolved better than expected. This gives us the opportunity for continued growth, supported by our cash and capital management policies.

As the acquisition of the remaining 25.01% constitutes a new initiative and represents an important opportunity for the Group, the Board has decided that this acquisition should be funded by way of an equity issuance limited to the purchase price. Given the relative immateriality, the transaction does not require shareholder approval. Although these developments have delayed the process slightly, the Bank development is progressing well and remains within budget. The launch is expected before the end of the 2018 calendar year.

Looking forward

Our focus going forward will be to continue building on the strengths and efficiencies gained from our growth methodology, capital management philosophy and cash framework. These have proven to be robust mechanisms for managing our growth and investment, and position us well as we continue to build new businesses and grow our established businesses.

We remain aware of the economic and regulatory effects in each of the markets where we operate and apply stringent processes to make sure we adhere to all requirements and respond to changes in the environment. Our structures and the targets we have set to maintain growth and sustainability supported by our Shared-Value Insurance model bode well for future performance. Our risk management and other processes will play an important role as we launch new businesses and continue to expand the reach of our existing businesses as outlined in our strategy across the integrated annual report. From a financial management perspective, we will continue to focus on the following key aspects:

- Managing the debt profile detailed in the report
- Meeting all the requirements of new and emerging IFRS standards
- Monitoring the effects of regulatory changes across our insurance businesses
- Ensuring that our application of reporting and disclosure remains transparent and that we proactively engage with stakeholders and other parties

INVESTOR Q&A

Q **Is your accounting policy for long-term insurance contracts appropriate?**

A The current accounting standard for insurance contracts, IFRS 4, does not prescribe any measurement rules for insurance contracts. However, it requires consistent application of an insurer's policy to recognise profit on insurance contracts. In line with this, Discovery has consistently adopted the policy of setting up a negative reserve at the point of sale that is approximately equal to the acquisition costs incurred in writing that policy. These acquisition costs are then amortised over the life of the policy and the profit inherent in the policy recognised by Discovery as the risk is assumed.

We have published additional unaudited investor communication to assist in understanding profit reporting and resultant negative reserves.

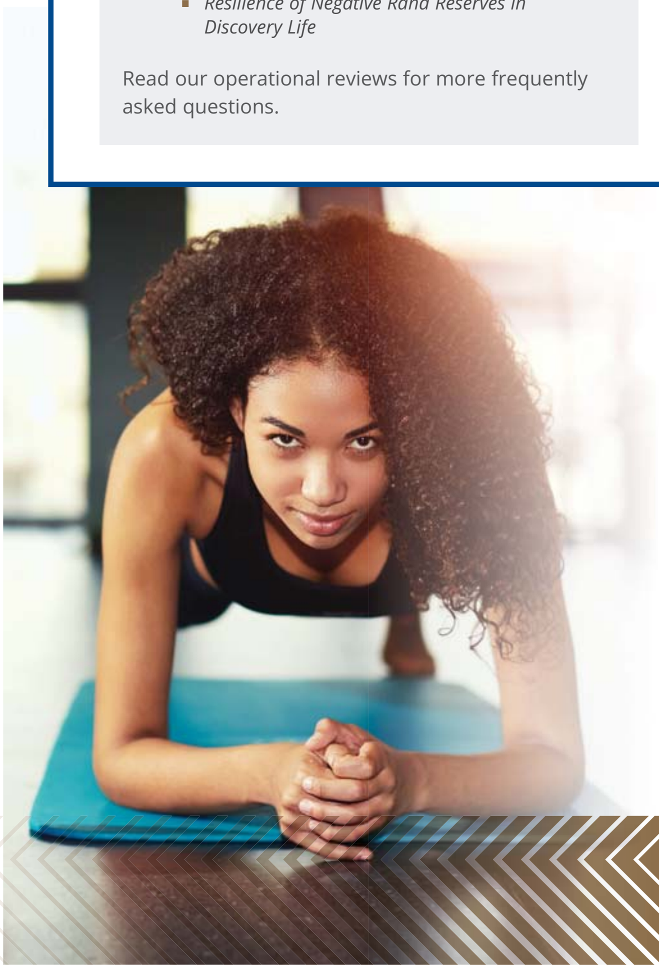
Please go to **https://www.discovery.co.za/corporate/investor-relations** and page down to: Financial results and reports, Interim results, 2018, Additional information:

- *Earnings and accounting policy*

Under Annual results 2018, Additional information:

- *Negative reserve principles infographic*
- *Resilience of Negative Rand Reserves in Discovery Life*

Read our operational reviews for more frequently asked questions.



WHO WE ARE TODAY

Where we operate

CANADA

PARTNERSHIP:

Shared-Value Insurance offering with Manulife

UNITED STATES

BUSINESS OFFERING:

Stand-alone corporate wellness initiatives

PARTNERSHIP:

Shared-Value Insurance offering with John Hancock

Vitality Group

800 000 **Vitality lives** in the United States

Approximately 800 000 **Vitality lives** through other partnerships

We impact

17.8 million

lives globally

UNITED KINGDOM

BUSINESS OFFERING:

Vitality LIFE INSURANCE

Vitality HEALTH INSURANCE

Vitality INVEST

1.1 million **lives**

EUROPE

PARTNERSHIP:

Shared-Value Insurance offering in Germany, France and Austria with Generali

GENERALI Vitality

CHINA

4.3 million **Ping An Run Vitality lives**

Linking Vitality Run to insurance products of Ping An Group

6.4 million **Ping An Health members**

EQUITY PARTNERSHIP:

25% equity partnership with the Ping An Group of China through Ping An Health

中国平安 PING AN

JAPAN

PARTNERSHIP:

Shared-Value Insurance offering with Sumitomo Life

SUMITOMO LIFE Vitality

PAN-ASIA

PARTNERSHIP:

Shared-Value Insurance offering with AIA

EQUITY PARTNERSHIP:

Australian health insurer, myOwn (strategic alliance between Discovery, AIA Australia, and GMHBA Ltd)

myOwn health insurance with AIA Vitality

AIA Vitality

SOUTH AFRICA

BUSINESS OFFERING:

- Health insurance
- Life insurance
- Long-term savings
- Short-term and business insurance
- Vitality
- Discovery Card and intention to enter banking

Discovery Health

Discovery Invest

Discovery Vitality

Discovery Life

Discovery Insure

Discovery Card

4.4 million **lives**

1.9 million **Vitality lives**

Our Group structure

DISCOVERY PRIMARY MARKETS

Our primary markets are in our home market of South Africa and the United Kingdom. In these markets we own and operate the financial services provider or insurer.

South Africa

- Discovery Health
- Discovery Life
- Discovery Invest
- Discovery Insure
- Discovery Card
- Intention to enter BANKING

United Kingdom

- Vitality HEALTH INSURANCE
- Vitality LIFE INSURANCE
- Vitality INVEST

Vitality™

Growth strategy

Expansion into adjacent industries

GLOBAL VITALITY NETWORK

All our businesses and partnerships apply the Vitality Shared-Value Insurance model. These assets, including partnerships, health-promotion programmes, data and other product and brand assets have been centralised in the GVN. Vitality is now present in 19 countries, through partnerships with leading insurers, offering Shared-Value Insurance products across life, health and short-term insurance, as well as investments.

The Vitality One technology infrastructure went live over the period, offering a globally unified systems architecture that all markets can access. The GVN supports Discovery's broader business strategy by increasing opportunities for integration and growth.

Discovery

PING AN HEALTH

China

中国平安 PING AN

Equity partnership

myOwn

Australia

myOwn health insurance with AIA Vitality

Equity partnership

PARTNER MARKETS

Vitality Group

Vitality Group manages the Group's expansion outside South Africa and the United Kingdom.

Vitality

AIA Vitality

GENERALI Vitality

John Hancock | Vitality

Manulife Vitality

SUMITOMO LIFE Vitality

IGI Life Vitality

Contractual insurance partnerships and a corporate wellness offering in the United States through Vitality USA

Growth strategy

Expansion into new markets and adjacencies, and forming new partnerships

Read more about our growth strategy going forward on **page 36**.

THROUGH VITALITY GROUP WE OFFER OUR INTELLECTUAL PROPERTY AND ASSETS TO LEADING GLOBAL INSURERS ACROSS THE WORLD. WE FORM PARTNERSHIPS AND JOINT VENTURES TO IMPLEMENT VITALITY SHARED-VALUE INSURANCE IN THESE MARKETS.

Our environment, risks and opportunities

Discovery's operational environment plays a significant role in our ability to meet performance objectives.

Our robust business model enables the business to manage and mitigate risks, and capitalise on market opportunities.

Our business model and the framework we apply have been responsive to broad environmental risks, supporting our business strategy and performance.

Read more about our business model on **page 30**.

Our Group Risk Management assists the Discovery Board to identify, assess, monitor, and mitigate material risks. This page provides details of the main opportunities and risk areas, the main stakeholders they affect, and our response.

AMBITIOUS BUSINESS GROWTH

We have identified various future opportunities to grow existing and new businesses. This growth presents various risks, including business delivery, operational and funding risks. Information technology stability and cybersecurity are key areas that require focus to support our success.

How we respond to possible risks

Governance structures across the Group oversee the development of strategies and implementation of key initiatives. Our capital framework allocates capital and helps to source required funding. Capital and liquidity requirements are monitored regularly and are linked to the risk management process.

We apply stringent business continuity, systems performance, technical risk management, and data security processes across all businesses.

Our stakeholders:

Regulators · Shareholders · Customers · Employees

ENTERING THE BANKING MARKET IN SOUTH AFRICA

The launch of Discovery Bank is on track and our offering is well developed. Products and systems need to be robust and effective to resource and manage the business effectively. We also have to attract new and retain existing customers in an industry that is increasingly competitive, yet movement of customers is generally conservative.

How we respond to possible risks

A highly experienced team is in place to oversee and manage the launch and roll-out of Discovery's banking offering. Products are supported by effective technology and are unhampered by legacy system issues. Strong governance and oversight ensure all risks are proactively identified and managed.

Our stakeholders:

Regulators · Shareholders · Customers · Employees

THE ECONOMIC ENVIRONMENT

South Africa: Our economy experienced another year of low growth. Global and national factors contributed to the South African Reserve Bank cutting the growth forecast. Inflationary pressures, brought on by the depreciating rand and the current high unemployment rate, place consumers under considerable strain. These factors all play a role in our new business growth, as well as lapse, credit default and claims rates.

The United Kingdom: The economic uncertainty surrounding the exit from the European Union, coupled with subdued levels of inflation, have had a number of implications. The most significant has been low interest rates, which affected product pricing and actuarial reserves.

How we respond to possible risks

Our business model remains competitive regardless of prevailing economic circumstances.

Diversification by geography and industry helps improve resilience. Innovative products and products that are responsive to the environment, provide some protection against the level and volatility of interest and inflation rates for the company and clients. Retention and growth strategies are in place across our established, emerging and new businesses.

Our stakeholders:

Shareholders · Customers · Employees

ACCESS TO, AND USE OF DATA

Through the Shared-Value Insurance model and members that take part in health-improvement, Vitality has access to member-collected data to provide services or develop further products. The responsible collection, use and security of personal and other data are vital to operating ethically and to preserve trust.

How we respond to possible risks

We have a formal data privacy framework in place that includes policies on the handling, storage and use of personal information. Our information privacy policy is comprehensive and supported by data security mechanisms to ensure the protection of data.

Our stakeholders:

Shareholders Customers Employees

Service partners Regulators

TRANSFORMATION IN OUR SENIOR MANAGEMENT TEAM

We support transformation across our business. There is a risk that this transformation is not occurring at the required pace at senior management levels. We are also focusing on attracting, developing and retaining black South African employees at all levels.

How we respond

Our corporate culture embraces diversity, and transformation remains a key focus for the Discovery Board and management. It is part of our remuneration system for management incentives. We have targeted recruitment, retention and training programmes, and offer financial support for career growth through bursaries.

Our stakeholders:

Shareholders Employees Regulators

INSURANCE RISK AND REGULATORY REQUIREMENTS

Our licenced businesses in South Africa and the United Kingdom have material insurance risks in the life insurance and non-life insurance sectors, including claim, expense and lapse risks. Regulatory changes in these environments present requirements to change how we operate and there are various risks associated with these changes.

How we respond

Our insurance underwriting policies remain robust and responsive. We monitor all lapse rates closely, and manage all reinsurance and other related risks under guidance from our Actuarial Committee.

Discovery has a zero tolerance for regulatory non-compliance. We adhere to all requirements and ensure we remain engaged with regulators and lawmakers. During the year, European businesses had to comply with new laws around client communication, the General Data Protection Regulation (GDPR). The SAM framework took effect in South Africa on 1 July 2018.

Developments occurred in Treating Customers Fairly, the Financial Intelligence Centre Act, Financial Services Charter Sector Codes and Fit and Proper requirements under the Financial Advisory and Intermediary Services Act. There were also developments on National Health Insurance and proposed amendments to the Medical Schemes Act.

The new regulatory environment in South Africa will see a greater focus on Group supervision as Discovery becomes regulated as a financial conglomerate, with both banking and insurance activities.

Looking ahead, we are preparing for:

- National Health Insurance and the Medical Schemes Amendment Bill
- The Retail Distribution Review
- The Protection of Personal Information Act
- IFRS 17 and reporting on profits and financial metrics
- Recommendations of the Health Market Inquiry

Our stakeholders:

Shareholders Customers Employees

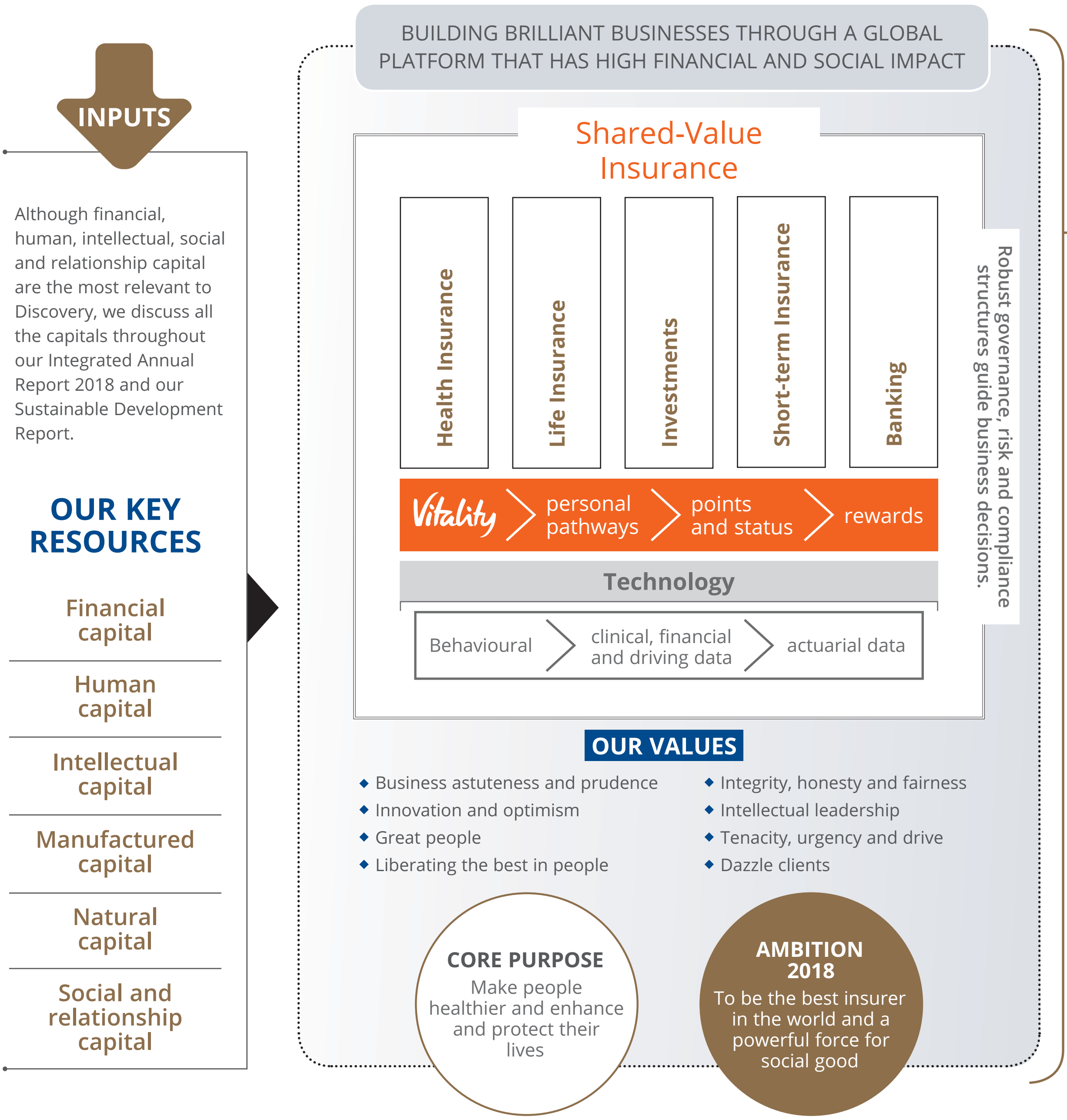
Distribution channels Healthcare providers Regulators

We discuss our progress and responses to these and business-specific focus areas in the business reviews from **page 39**.

You will find more information in our governance report, available on **www.discovery.co.za**.

Our business model

Vitality forms the foundation of Discovery's Shared-Value Insurance model. Through this model, Discovery has enabled the world's largest behavioural platform, through which insurers and other financial services companies can access Vitality. Vitality measures engagement clinically and actuarially, enabling the dynamic pricing of mortality and morbidity, as well as financial, driving and health risks. Dynamic pricing enables us to price clients individually at inception, and in life insurance their premiums increase or decrease based on their Vitality engagement. In this way, our model continues to drive shared value: it improves risk behaviour and value for clients, delivers superior actuarial dynamics for the insurer, and a healthier society at large.



Read more about our performance against the Ambition 2018 targets on **page 32**.

Read more about our key risks on **page 28** or visit **www.discovery.co.za** for our Governance Report.

Read our Sustainable Development Report on **www.discovery.co.za** for more details about the outcomes of our model in our workplace and in society.

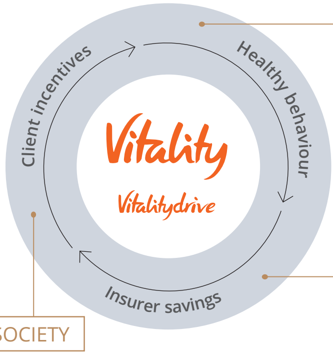
OUTPUTS

Clients can integrate their financial and insurance products to generate more value from financial rewards and incentives as they continue to engage with Vitality to improve their health. For the business, integrated policies are more profitable through stronger persistency, improved claims experience, higher margins and lower lapses and loss ratios.

OUTCOMES

OF SHARED-VALUE INSURANCE

Our Shared-Value Insurance model results in positive outcomes for our business, our clients, society and other stakeholders.



CLIENTS

- Improved health
- Better value through better price and benefits

INSURER

- Lower claims
- Higher margins
- Positive selection and lower lapse rates

SOCIETY

- Healthier society
- Improved productivity
- Reduced healthcare burden

SHAREHOLDERS

Share price at listing in October 1999

R6.90

Closing share price end of June 2018

R147.50

CLIENTS AND OTHER AREAS OF THE INDUSTRY

Our model has shown resilience in varying economic climates and our businesses continue to perform well. We build mutually beneficial partnerships where we operate, and we continue to manage risks and environmental impacts such as:

- Changing regulatory and compliance requirements.
- Responding to slow growth in the South African economy and a low interest rate in our other primary market, the United Kingdom.
- Delivery on our ambitious business growth and managing the associated business, operational and funding risks.
- Ensuring correct use of client data and securing systems for high performance and safety against cyberattacks.
- Speeding up the pace of transformation within senior management in our business.

Refer to our business reviews from **page 39**.

BUSINESS

	Life insurance	Health insurance	Motor insurance	Long-term savings
SALES	20% – 30% increase in market share	44% increase in market share	6X increase in market share	70% – 200% increase in market share
X SELECTION	20%+ better claims experience compared to non-Vitality	Initial engagers have: 28% lower hospital costs; 10% lower chronic conditions	10% better driving score compared to population	85%+ invested into preferred funds
X BEHAVIOUR	>50% lower mortality on highly engaged	Members who run at least twice a week save 15% on healthcare costs	15% improvement in driving behaviour	60% lower income drawdowns
X LAPSES	15%+ lower lapse rate; Loyal clients have 50% lower mortality risk	>3.6x lower lapse rates	60% lower lapse rates; Loyal clients have 24.7% lower absolute loss ratios than leavers	3x more ad hoc additions; 25% – 50% lower withdrawals
SHARED VALUE	>2x Higher value of new business	4% Lower loss ratio	17% Lower loss ratio	>1.5x Higher value of new business

How our model helps us to deliver on our objectives

The efficacy and impact of this model led to the development of Ambition 2018 and the consequent operating framework.

Ambition 2018:
To be the best insurer in the world and a powerful force for social good.

2013

OPERATED IN
five countries
and had a normalised operating profit of
R4 billion

2018

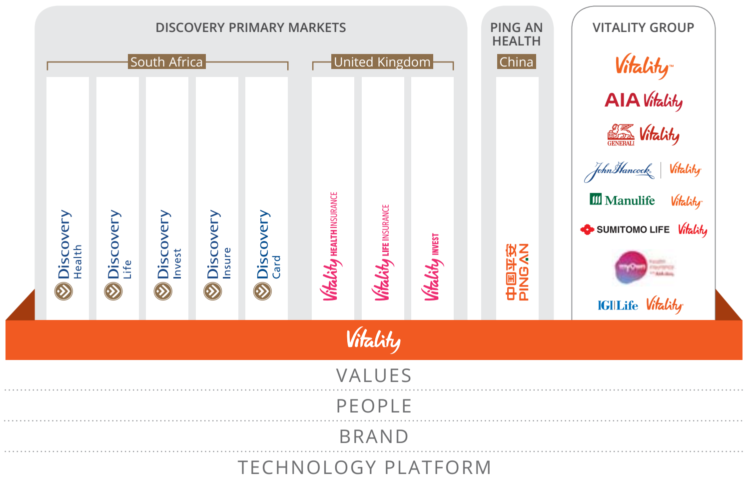
OPERATE IN
19 countries
with more partnerships in the pipeline and have a normalised operating profit of
R8.3 billion

Our Ambition 2018 was set across three categories with stretch targets for our **businesses**, our **impact** and our **foundation**. Our core purpose, business model (page 30), people, values, technology platform, and brand all came together to drive our performance.

Our performance measures against Ambition 2018

BUSINESSES

- Insurgent
- Significant engagement
- Superior actuarial dynamics
- Meeting complex consumer needs
- Exceptional service



FINANCIAL AND SOCIAL IMPACT

- R10 billion in pre-tax earnings
- CPI + 10% profit growth
- Risk-free + 10% return on capital
- 10 million members

FOUNDATION

Global platform, science and data | Powerful brand | Employer of choice for critical skills | Values-based culture

To measure our performance against Ambition 2018's targets, we asked these questions

1

Have we established a global leadership position?

Boston Consulting Group named Discovery as one of the

LEADERS IN DIGITAL INNOVATION who has built ecosystems using digital technology to fill market voids, and are continuously innovating with a customer-centric focus.

Discovery has received wide global acknowledgement for

INNOVATION IN INSURANCE, AND OUR BUSINESS MODEL.

2

Has our return on capital, earnings and value met the targets we set?

Despite the stretch target, our financial targets are close to Ambition 2018.

CPI + 12%

normalised operating profit growth

GLOBALLY, WE IMPACT

17.8 million

lives

Read more about our performance in the report by Group Chief Executive, Adrian Gore, on **page 02** and the report of our Financial Director, Deon Viljoen, on **page 04**.

3

Are our businesses insurgent and have they all performed within expectation?

Retention, loss ratio and engagement levels indicate our superior actuarial dynamics and ability to meet complex consumer needs.

Engagement levels in Vitality are steadily increasing as our partners are also placing greater focus on engagement.

INCREASE IN MARKET SHARE

Life insurance

20% – 30%

Health insurance

44%

Motor insurance

6X

Long-term savings

70% – 200%

Read more about our key performance indicators on **page 34**.

4

Does our foundation keep us competitive and enable sustainable future growth?

Developments in our technology now make it possible to apply the Shared-Value Insurance model to any industry. The Vitality One technology infrastructure went live during the year, offering a globally unified systems architecture that all markets can access.

Read about our global platform on **page 37**.

Read more about the impact of our workplace, employees and our businesses in our Sustainable Development Report on **www.discovery.co.za**.

Key performance indicators

Outside of Ambition 2018, we constantly monitor our performance across a range of measures in line with our high-performance culture. This page outlines key performance measures for the past four years.

STRATEGY MEASURES

		2018	2017	2016	2015
Insurgency and market leadership in new business	Market position	**In the majority of our markets we are among the top 10 providers.**	Among the top 10 providers in the markets in which we operate	Among the top 10 providers in the markets in which we operate	Among the top 10 providers in the markets in which we operate
		As outlined from **page 33**, we have made significant progress towards all our strategy measures.			
Products that meet complex consumer needs and that are sustainable	New products launched each year	**We launched new products in all businesses in 2017 and 2018**	New products launched in all businesses during 2016 and 2017	New products and benefits launched in all Discovery businesses in 2015 and 2016	New products and benefits launched in all Discovery businesses in 2014 and 2015
		The Group has an annual product launch where each business updates existing products and introduces new client-focused offers. We outline these new offers on the Discovery website.			
Powerful, distinctive and aspirational brand	Roll-out of the business model	**Present in 19 countries**	Present in 16 countries	Launch of the GVN and present in 14 markets	The Vitality Shared-Value Insurance model is present in 14 markets
		We continued to build our brand globally, with the Group now present in 19 countries.			

SERVICE MEASURES

		2018	2017	2016	2015
Exceptional service ecosystem	Member perception scores*	**8.89**	8.85	8.73	8.79
		We continued to focus on creating exceptional service and ease of use of our products through technology and partnerships with service providers.			
	Broker/ franchise perception scores*	**8.71**	8.96	8.73	8.55
		We continued to focus on our core distribution channel and enhancing business efficiency and service to financial advisers.			

SOCIAL MEASURES

		2018	2017	2016	2015
Reach 10 million members and make them healthier	Growth in lives impacted	**17.8 million lives**	Close to 10 million lives	6.9 million lives	5.1 million lives

* *Member and broker perception scores on service received are calculated each month. The perception scores apply to Discovery Health and are measured across communication channels.*

FINANCIAL MEASURES

Objective	Measure	2018	2017	2016	2015
Significant engagement, superior actuarial dynamics, loss ratio and lapse rates; Higher value of new business (VNB) margin but never competing on price	Normalised headline earnings	**R5 401 million**	R4 656 million	R4 312 million	R4 027 million
	Embedded value	**R65 624 million**	R57 294 million	R53 080 million	R52 295 million
		The annualised return on opening embedded value was 16.9%.			
	Solvency See financial statements for details.	**As at 30 June 2018, all businesses met and exceeded their regulatory capital requirements**	As at 30 June 2017, all businesses met and exceeded their regulatory capital requirements	As at 30 June 2016, all businesses met and exceeded their regulatory capital requirements	As at 30 June 2015, all businesses met and exceeded their regulatory capital requirements
	Return on capital (ROC) greater than risk-free rate of return + 10%	**16.5%**	14.4%	13%	17.5%
	Core new business API	**R16 137 million**	R14 660 million	R13 303 million	R12 320 million (restated)
	VNB (Discovery Life and Invest)	**R1 302 million**	R1 231 million	R1 196 million	R1 212 million
		During the year, our value of new business for the Group continued to improve, this year by 16%.			
	Growth in normalised profit from operations of between 20% and 25%	**17%**	10%	11%	17%
	Employee turnover	**17.45%**	15.89%	15.70%	11.20%
		We are monitoring employee turnover and identifying the reasons for this across the business.			
	EMPLOYEE ENGAGEMENT Employee engagement surveys	**28%**	30%	32%	21%

Note: Lapse rates and loss ratios are measured at business level, but are not disclosed due to competitive sensitivity.

PEOPLE MEASURES

Objective	Measure	2018	2017	2016	2015
Recognition as employer of choice for all critical skills; Values-based culture	**LEARNING AND DEVELOPMENT** ▪ Number of employees who have completed leadership development programmes at year end	**854**	406	524	211
	▪ Number of employees participating in wellness days	**5 556**	5 289	5 740	6 128

Detailed information of key performance areas as it relates to our remuneration policy is available from **page 91**.

Our longer-term focus

We will continue using Ambition 2018 as a **framework to drive performance in our businesses, our foundation and our social and financial impact.**

To ensure we have a roadmap to reach future goals, we are developing a number of new stretch targets for the next three years to ensure we continue our ambitious growth in a focused way.

To be the world's **best insurance organisation** and **largest behavioural platform** through which **leading global insurers and companies can access the Vitality Shared-Value Insurance model.**

OUR FOCUS AREAS:

1. Continue to scale our businesses and our model to diversify earnings.
2. **In our primary markets of South Africa and the United Kingdom,** we will focus on growing emerging and new businesses we launched in adjacencies, which include Discovery Bank and VitalityInvest.
3. **In Vitality Group,** we will continue to expand by entering into new partnerships and new markets, while we grow existing businesses and identify latent opportunities.

Our people and technology development play a major part in our delivery. We have focused employment and systems, and technology development plans.

TO ACHIEVE OUR NEXT GOALS, WE HAVE TO:

- Ensure a brilliant performance by businesses in South Africa, which includes successfully launching Discovery Bank
- Build an excellent insurer in the United Kingdom and grow VitalityInvest
- Continue to support Ping An Health's growth
- Continue to build the Vitality platform and behaviour-linked financial service offerings to optimise the network
- Expand our partnerships

DEVELOPMENT OF THE GVN AND VITALITY PLATFORM

We aim to continue growing the success of our GVN and the single platform into adjacent industries. This platform stimulates continuous growth in the collective value of the Vitality asset for the benefit of partners, insurers and members.

KEY DATA

8.9 million
Vitality members

MORE THAN
17 million
clients

+150 000
new members each month

200 million
exercise activities tracked every year

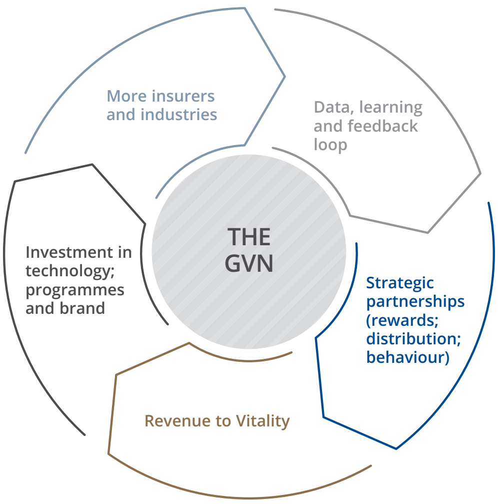
40 million
life years of behaviour-linked mortality and morbidity data

OUTLOOK

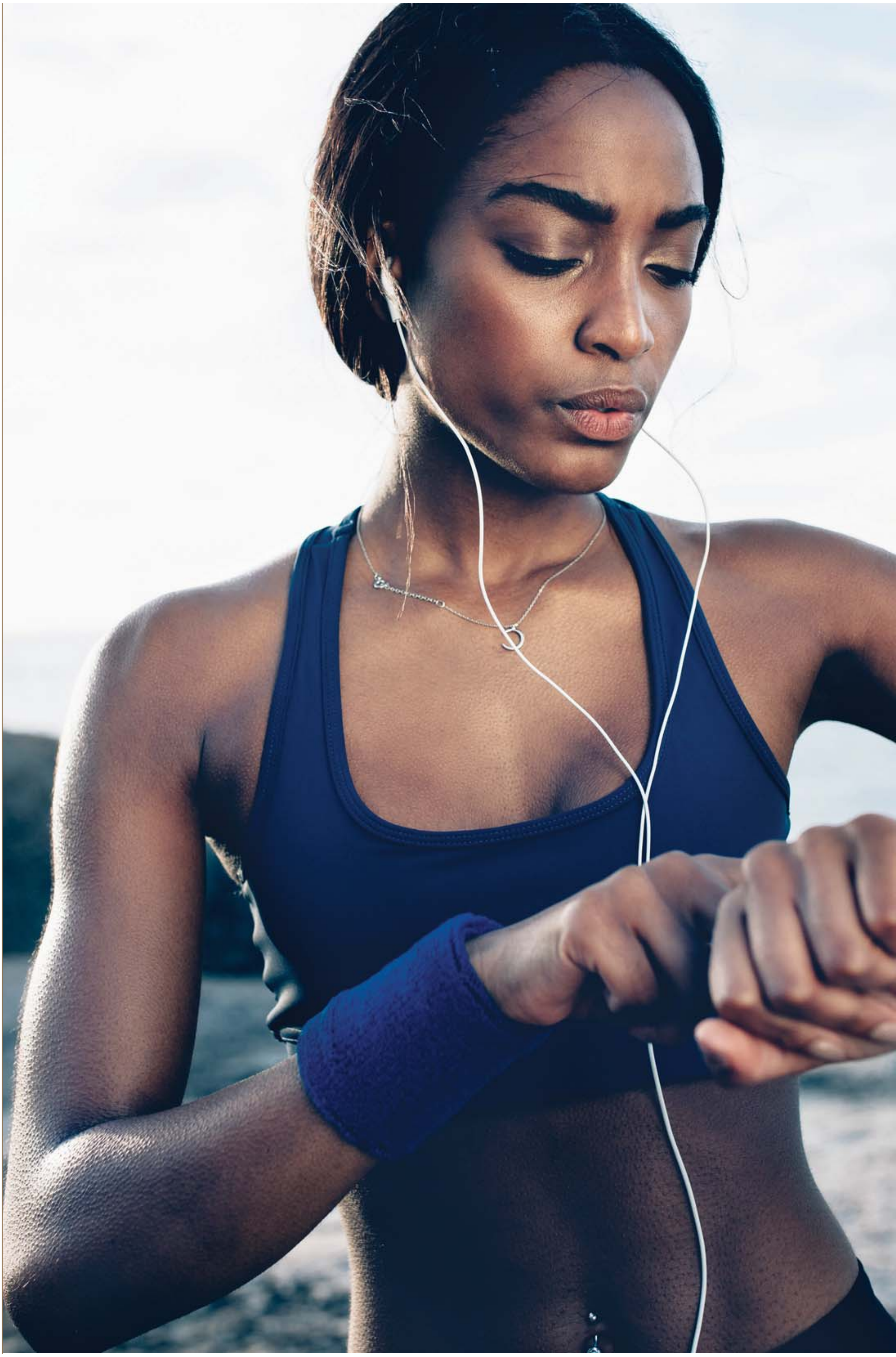
In developing capabilities, the GVN will focus on the following:

1. Refine the Shared-Value Insurance model for each industry to support the Vitality Group.
2. Develop programmes and functions that are core to Vitality in all markets.
3. Increase global partnerships.
4. Develop and execute an intellectual leadership and consumer brand strategy that create value for all our partners.
5. Make Vitality One, the technology infrastructure launched during the year, core to all new partners, with a timeline to on-board all partner insurers and primary markets.

THE AIM OF THE GVN



1. Bolster the global Vitality proposition.
2. Deliver ongoing value to insurance partners through innovation at the forefront of science and health improvement.
3. Facilitate speed to market and leverage our global network scale and interconnectivity to deliver benefits that would not ordinarily be available to our partners.
4. Become synonymous with Shared-Value Insurance (at a corporate level), and promote healthy living in a fun and engaging way, built on science and executed with leading partners (at a consumer level).
5. Shape public opinion and policy direction favourably by contributing a significant collective and credible voice to the promotion of the individual and societal benefits of health and wellbeing.



BUSINESS REVIEWS

Our leadership

Discovery Executive Directors and Group Executive

ADRIAN GORE
Founder and
Group Chief Executive

HYLTON KALLNER
Executive Director
Chief Executive Officer:
Discovery Life

NEVILLE KOOPOWITZ
Executive Director
Chief Executive Officer:
VitalityHealth

DEON VILJOEN
Financial Director

HERSCHEL MAYERS
Executive Director
Chief Executive Officer:
VitalityLife and
VitalityInvest

DR AYANDA NTSALUBA
Executive Director

ALAN POLLARD
Executive Director
President of Product
and Innovation:
Vitality Group

JOHN ROBERTSON
Executive Director

BARRY SWARTZBERG
Chief Executive Officer:
Vitality Group

Group Executive

FIROZE BHORAT
Chief Marketing Officer

DEREK WILCOCKS
Group Chief
Information Officer

ANTON OSSIP
Chief Executive Officer:
Discovery Insure

DINESH GOVENDER
Chief Executive Officer:
Discovery Vitality

BARRY HORE
Chief Executive
Director:
Discovery Bank

TSWELO KODISANG
Chief People Officer

ANDREW RAYNER
Group Chief Risk Officer

Discovery Non-executive Directors

HERMAN BOSMAN
Non-executive Director

DR BRIAN BRINK
Independent
Non-executive Director

SONJA DE BRUYN SEBOTSA
Independent
Non-executive Director

RICHARD FARBER
Non-executive Director
(from April 2018)

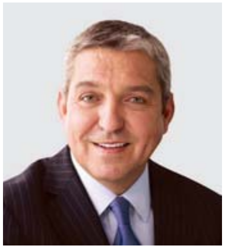
FAITH KHANYILE
Independent
Non-executive Director

DR VINCENT MAPHAI
Non-executive Director

TITO MBOWENI
Independent
Non-executive Director
(resigned October 2018)

LES OWEN
Independent
Non-executive Director

SINDI ZILWA
Independent
Non-executive Director



ROBERT ENSLIN
Independent
Non-executive Director

Chairperson of the Board

MONTY HILKOWITZ
Non-executive Director

The detailed curricula vitae of our leadership team can be found in the Governance Report on **www.discovery.co.za**.

Prescribed Officers of the Board

DR PENNY MOUMAKWA
Head of Discovery People and Sustainable Development
(to January 2018)

KENNY RABSON
Chief Executive Officer: Discovery Invest and Employee Benefits

DR JONATHAN BROOMBERG
Chief Executive Officer: Discovery Health

FACT SHEET

VITALITY SA

Vitality is the largest health-promotion programme globally, with 1.9 million lives positively impacted in South Africa in 2018. Vitality underpins all Discovery's businesses and supports them by enabling product integration and cross-selling opportunities across the portfolio of businesses and products.

Vitality was built on the understanding that insurance risk is dependent on behaviour, which changes over time. Drawing on behavioural economics to support and incentivise people, Vitality helps people to improve risk-related lifestyle behaviour and consequently their health.

This health-promotion cycle, when integrated with insurance, allows for the continual assessment of insurance risk to dynamically price insurance based on engagement with Vitality and the resulting health improvement. Premium discounts and other benefits act as motivation to increase engagement in behaviour that improves health. This model, with Vitality as its foundation, manifests in Shared-Value Insurance and provides material benefits to clients, insurers and society.

Key data in our business

VITALITY INCREASES PHYSICAL ACTIVITY

Since the launch of Vitality Active Rewards
there has been an increase in physical activity days

↑ 39%

and an increase in meeting higher exercise targets

↑ 37%

VITALITY HELPS CREATE HEALTH AWARENESS

16% increase in the number of members completing Vitality Health Checks in the current financial year

350 000
Vitality Health Checks completed in 2017

10% increase in the number of members completing a Vitality Fitness Assessment over the period

100 000
Fitness Assessments completed over the period

SUCCESS OF VITALITY ACTIVE REWARDS

Vitality Active Rewards is one of the most successful Vitality benefits ever, with take-up exceeding

400 000

ENCOURAGING PHYSICAL ACTIVITY

Team Vitality, Discovery's virtual running and cycling club,
has seen an increase in membership in the 2018 financial year of approximately

19%

growing to over

17 000
members

Team Vitality remains the largest running club in the country and in 2018 had the highest Comrades participation of any running club in the country

28 million
gym visits

62 million
exercise days

VITALITY REWARDS MEMBERS FOR LIVING WELL

There were 431 325 **HealthyFood policies active in June 2018**

20 million
HealthyFood baskets

1.35 million
flights booked

2.67 million
movies watched

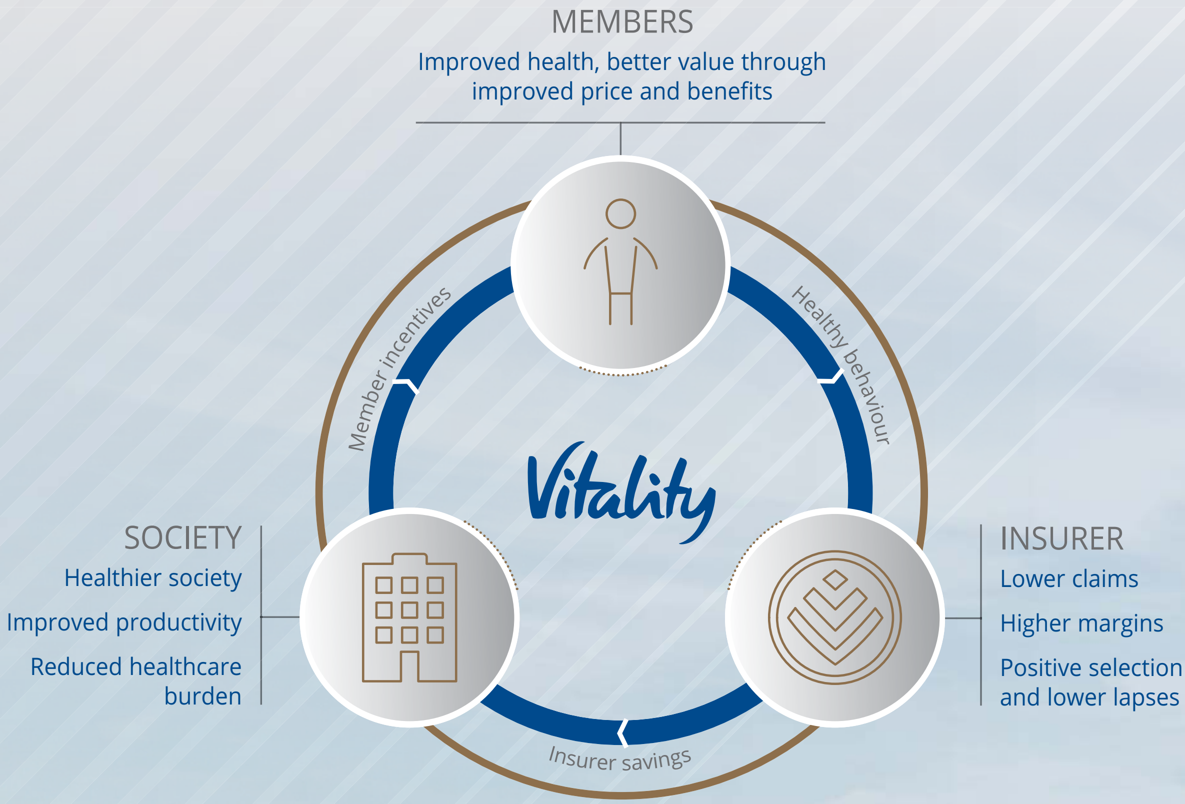
5.26 million
Active Rewards earned

How shared value is implemented in Vitality

Vitality guides, incentivises and provides clients with access to a broad range of wellness and prevention paths. It measures engagement clinically and actuarially, enabling the dynamic pricing of insurance products based on mortality, morbidity and health risks.

This dynamic pricing enables Discovery to offer clients pricing based on their individual risk profile at inception, and to have their premiums increase or decrease based on their Vitality engagement.

The model creates more value through lower price points and better benefits; attracts better lives; encourages positive behavioural change; and leads to lower claims rates with better selective lapsation. Vitality gives the business a unique price competitiveness and a significant margin uplift, while it continues to deliver better health and value for clients, superior actuarial dynamics for the business and a healthier society at large.



OPERATIONAL REVIEW

2018 **performance**

Vitality has

1.9 million

members in South Africa

Vitality sales

↑ 10% year-on-year

in the last quarter

The introduction of new campaigns, and Vitality Move, Vitality Active and Vitality Purple contributed to growth

Members with Vitality Active Rewards received more than

three million rewards

More Vitality members are sharing the value of their rewards by donating it to various social causes, with donations doubling as a proportion of total rewards redeemed

Vitality continues to show a positive effect on overall lapse rates across Discovery products, as well as on member health and healthcare costs

Our strategy and differentiators

Vitality's vision is to be the world's best incentive and behaviour-change programme.

We aim to achieve this by being at the centre of Discovery's business model to improve morbidity and mortality, and to reward clients accordingly.

The key issues that impacted our business this year

1

Ensure continued growth through increased membership and new offerings

The number of lives on Vitality has remained fairly stable during the year, with increased take-up among the majority of Discovery Life policyholders. The take-up of Vitality among members on the higher end medical scheme plans has also remained consistent. Discovery Health has grown its reach in the closed medical scheme market; however, many of these medical scheme members choose not to join Vitality due to limitations in affordability. This is also the trend in the membership growth on plans for the lower-income segment, for example KeyCare or Smart Plans. Affordability concerns have resulted in lower new business growth for Vitality and we are addressing this, for example through the launch of Vitality Move and other Vitality products.

To drive additional sales and membership, various marketing and sales initiatives were implemented. This resulted in a boost to sales, engagement and conservation of clients. In parallel, a market survey was commissioned to evaluate client perceptions. These results will guide benefit updates to increase uptake and engagement.

A sales plan for Vitality Move, Vitality Purple and Vitality Active, released in the first half of 2018, is in place. Vitality Move is a low-cost product, while Vitality Active is a product for young adults and Vitality Purple is a product for high net-worth clients. These products widen our reach and make products more personalised for different segments.

Vitality also introduced bike booster and device booster to deepen engagement.

We also improved our efforts to educate Vitality members about their benefits and the value. The effectiveness of these initiatives has kept the projected lapse rate flat.

3

Integrating knowledge and experience to launch Discovery Bank

Vitality has been working closely with research and development teams on various projects for the planned launch of Discovery Bank. The focus has been on product development and refinement, leveraging Vitality's experience in behaviour modification and incentives.

2

Increased engagement

Vitality continues to increase engagement in health-promoting activities. During the year, this was driven by:

- Enhancements to Active Rewards, which included the introduction of goal streaks and surprise rewards. This resulted in an 11% increase in physical activity among Vitality members and membership of Active Rewards growing to over 400 000.
- Increased physical activity triggered higher engagement in other health-promoting activities. This led to a 10% increase in Vitality Fitness Assessments and a 16% increase in screening and prevention through Vitality Health Check.
- Personalised messaging and interaction through the distribution of Vitality Dashboard, which has led to a higher engagement in Vitality benefits and completion rates of different activities.

4

Enhancing the value of Vitality through achieving a higher status

During the period, Vitality focused on incentivising behaviour that has a material effect on health and health improvement. For those Vitality members who engage in these activities and meet the required criteria, there is an increased value in achieving a higher status. Various enhancements to health and fitness assessments going forward also aim to ensure that Vitality has even greater success in improving members' overall health and their related incentives.

Earning Vitality points brings financial gain to members in the form of discounts and other rewards, which also has financial implications for Vitality. It is important to ensure points are awarded accurately for all completed activities. An investigation into points-earning behaviour identified possible fraudulent behaviour among a small number of Vitality members. Examples include multiple Vitality members claiming points for the same device activity, and members submitting non-smoker declarations while indicating a different smoker status on their life insurance policies. Vitality has now set up a dedicated team, similar to Discovery Health, which identifies potential fraudulent actions.

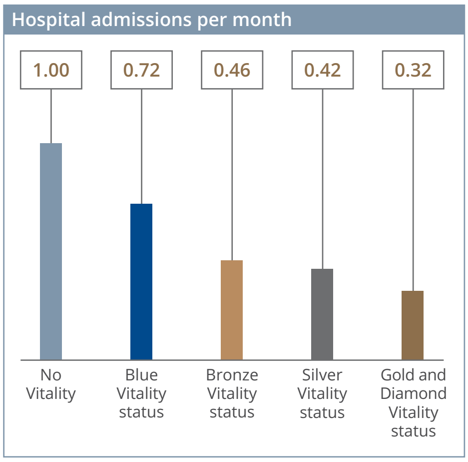
5

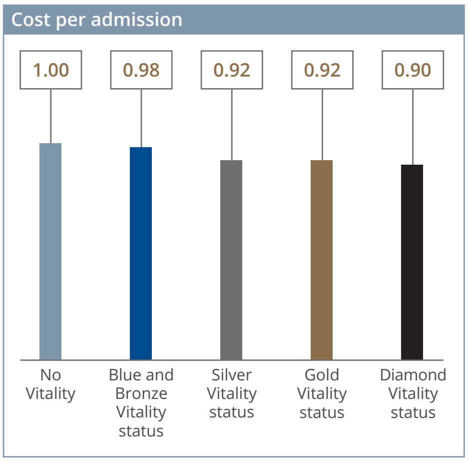
Linking Vitality more closely to health outcomes

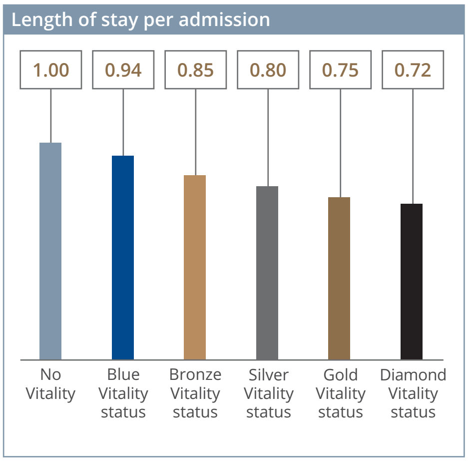
In combination with the initiatives linked to enhancing the value of Vitality statuses, there is an effort to more closely align health outcomes to Vitality rewards. This will see the integration of various health modules into Vitality Active Rewards in an effort to help at-risk Vitality members to engage in their health. In the product update for the next calendar year, Vitality will focus on further integrating health management to address weight loss, and to help members manage diabetes and cardiovascular conditions. This will be combined with enhancements to Vitality that encourage better behaviour around nutrition and physical activity. The aim is to build on and increase the positive impact of Vitality on health outcomes.

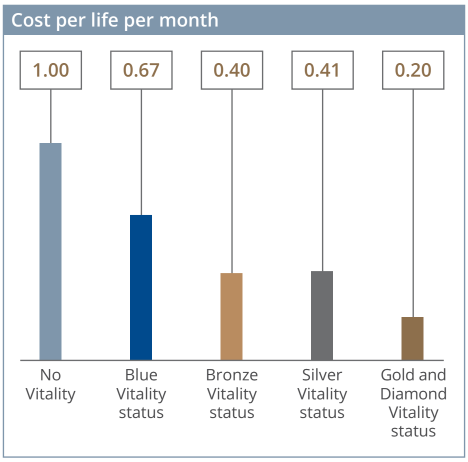
Impact of Vitality on health outcomes

The graphs show the risk-adjusted* experience over 2017 for Discovery Health Medical Scheme members on each of the Vitality statuses relative to that of members that do not have Vitality.









* *Adjustment for age, gender, plan and health status.*

OUTLOOK

Our aim is to be the world's best incentive and behaviour-change programme. We will continue to deepen the positive impact of Vitality on existing and potential members, and on South African society. This will be done by focusing on the following key strategic areas over the next few years:

- Expanding our products' appeal to a broader range of the South African population. Through the launch of products such as Vitality Move and Vitality Active, we have already broadened our market. We will also focus on expanding our partner network to engage a broader spectrum of the market.
- As outlined in this review, we will continue to drive our initiatives to deepen Vitality engagement to make members healthier and address the burden of non-communicable diseases.
- We will remain focused on increasing personalised and dynamic physical activity, nutrition and smoking cessation programmes and assistance with mental wellbeing, using technology to enable improved verification and measurement.
- We will continue to work towards being recognised as the world's best incentive and behaviour-change programme.

Discovery Vitality

INVESTOR **Q&A**

Q How are you readdressing the decrease in membership number?

A Vitality has seen an increase in membership numbers in the last quarter of the financial year. This is the result of tailored offerings to different market segments and efforts to increase knowledge of Vitality tools and rewards that make people healthier.

To extend the benefits of Vitality Active Rewards to the broader population, Vitality announced the Vitality Open in the September 2018 product update. In addition, a series of benefit updates are planned based on the feedback from the earlier market survey Vitality commissioned.

Various marketing and sales initiatives are in the pipeline to increase sales engagement, and to conserve clients.

Q Are you achieving actual behaviour change or is the positive experience a result of selection?

A A significant proportion of the shared value arises from behaviour improvement. There are three effects: positive selection, behaviour maintenance, and positive behaviour change.

It is our view that the natural inclination of the majority of people is negative wellness behaviour change, especially with increasing age. But our longitudinal data show that incentives lead to a net positive behaviour change in the population over time (after deducting the impact of negative behaviour change, which does happen), and that a significant positive behaviour maintenance effect is evident. We have done a lot of work separating these effects, and comparing it against non-Vitality benchmark data.

While positive selection is real, it is by no means the only or majority effect. The size of the various components differ by market, by healthcare system, and changes over time (with the positive behaviour change effect increasing over time).

FACT SHEET

DISCOVERY HEALTH

Discovery Health is South Africa's leading medical scheme administrator and managed care provider. Our mandate remains clear: to provide medical scheme members with access to quality, affordable healthcare on a sustainable basis, while assisting in enhancing the healthcare system for all South Africans.

Discovery Health manages 40% of the total membership of medical schemes in South Africa, including Discovery Health Medical Scheme (DHMS), South Africa's largest open medical scheme with 2.8 million lives and a 56% share of the open scheme market.

Discovery Health is also active in the management of restricted medical schemes, and has been awarded 16 out of 17 tenders to manage restricted medical schemes over the past 10 years. The business manages 18 closed medical schemes on behalf of corporate clients and has a 17% market share in the restricted medical scheme market. Engen Medical Benefit Fund joined the Discovery platform with effect from 1 July 2018.

Key data in our business

THE BUSINESS HAS GROWN SIGNIFICANTLY SINCE ITS INCEPTION IN 1992 TO COVER

3.5 million **lives today**

We currently provide administration and managed care services to 18 restricted membership schemes, and the country's largest open medical scheme, **DHMS**

MORE THAN

73% **of all members who join a medical scheme through their employer, join DHMS**

THE CONTRIBUTION OF A MEMBER OF DHMS IS ON AVERAGE

16.4% **lower**

than the next eight largest open schemes on a plan-for-plan comparison basis

DISCOVERY HEALTH MANAGES THE HEALTH AND WELLNESS NEEDS OF MORE THAN

2 000 **medium to large employers in South Africa**

Medium: 50 – 199 employees

Large: 200 or more employees

The business has developed scalable and flexible technology architecture built for speed

A new policy is activated every 22 seconds and R32.7 million is paid in claims every hour

DISCOVERY HEALTH HAS MORE THAN

4 000 **EMPLOYEES, INCLUDING**

30 **actuaries**

270 **analysts**

19 **clinical coders**

Discovery Health

New business

New policy activated every **22 seconds**

A Discovery Baby is born every **6 minutes**

16% of applications received via **direct to consumer sales channel**

74 franchises nationwide

7 030 independent financial advisers

Digital support

2 million websites users

326 200 mobile users

4 400 monthly HealthID users

205 800 social media followers

1 768 395 digital membership cards downloaded

Service and claims

36 200 calls received per day

3 800 Walk-in-Centre visits per month

R6.2 billion billed in premiums per month

264 500 claims received per day

R32.7 million paid in claims per hour

Benefit management

2 940 hospital admissions approved per day

1 800 Chronic Illness Benefit applications received per day

65 600 HIV programme members

56 900 oncology programme members

How shared value is implemented in Discovery Health

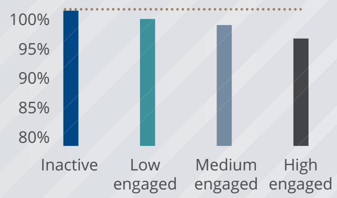
The success of Discovery Health is due to our ability to offer a fully integrated, value-driven healthcare system for all our clients. We operate beyond traditional administration and managed-care services, and provide ongoing product innovation, best-in-class service excellence, effective claims risk and fraud management. We also focus on the coordination and management of the quality of clinical services.

Our shared-value approach, with Vitality at the centre, enables a value-based healthcare system that improves members' health and lowers healthcare costs, resulting in lower contributions compared with those of competitors, and measurable improvements in the quality of care. This is reflected in health outcomes for members of client medical schemes, such as lower hospitalisation rates and shorter hospital stays. The success of the model is also demonstrated by the sustained strong performance of DHMS, and of the restricted medical schemes under our management.

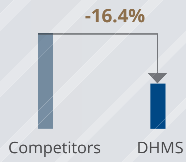
MEMBERS

Better health

Fewer hospital admissions



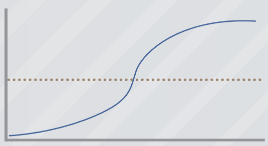
Lower premiums



SOCIETY

Healthier and more productive workforce

Impact of employee wellness on productivity



Increased revenues for healthcare providers

+R100m

paid in quality incentives (since August 2012)

HEALTH INSURER

Lower claims

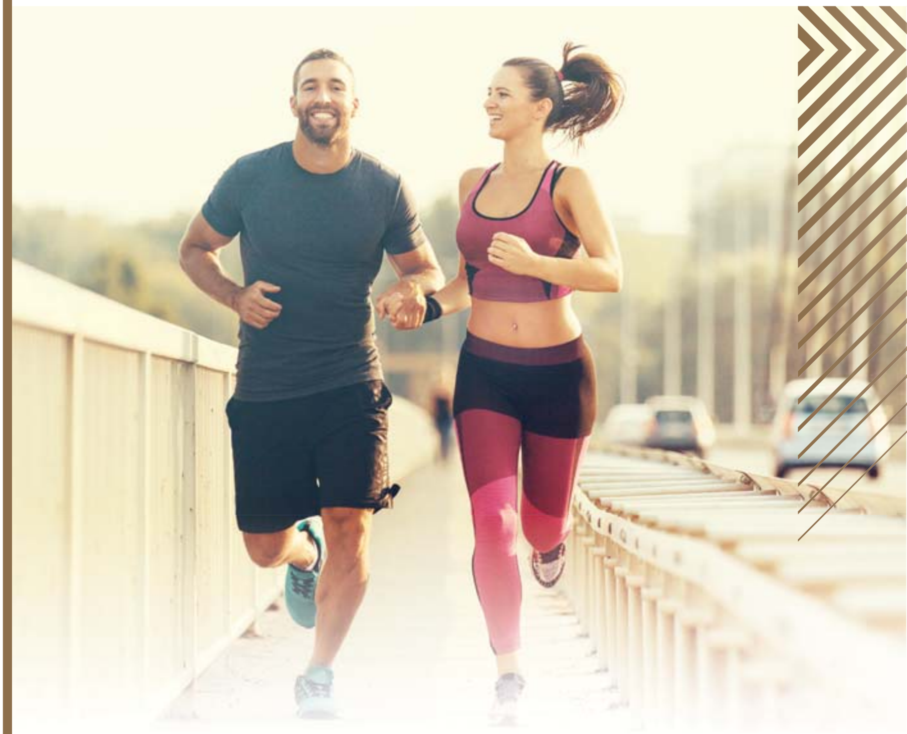
- Heart disease: **-41%**
- Diabetes: **-53%**
- Lung diseases: **-50%**

Increased growth and sustainability

- Solvency: **26.1%**
- Reserves: **R16.9 billion**
- Positive selection effects
- High persistency
- Strong membership growth: **2.0%**

DISCOVERY HEALTH

OPERATIONAL REVIEW



2018 **performance**

New business API

↑ 8%

to R6 573 million

(excluding take-on of new restricted schemes)

Operating profit

↑ 11%

to R2 777 million

Engen Medical Benefit Fund joined the Discovery Health platform with effect from 1 July 2018. The Fund has

3 344 policies

and

6 946 lives

With this addition, Discovery Health now manages **restricted membership** medical schemes with over **670 000** lives

DHMS membership

↑ 2.0%

to 2.8 million lives

The total number of lives under management in open and restricted schemes is over **3.5 million**

Discovery for Business, the integrated corporate offering, was launched to financial advisers in 2018

The response has been positive, with strong interest in the Discovery Health-affiliated products, namely HealthyCompany and PrimaryCare

Discovery Health

Our strategy and differentiators

Our strategy is to deliver an integrated value-driven healthcare system that is centred on meeting members' needs and delivering access to the best quality care at outstanding value for each of our stakeholders and our client medical schemes. We achieve this through a pioneering model that incentivises people to be healthier and incentivises healthcare professionals through value-based contracting – all contributing to a healthier society and more clients selecting Discovery Health.

Discovery Health has led the way in innovation and positive change in healthcare. Our services go well beyond traditional administration and managed care services and include ongoing substantial investment in digital innovation, with a significant focus on improving both efficiency and quality of care to ensure better health outcomes for our clients.

The ability to offer consistently superior client value has manifested in market-leading new business, loss ratios and persistency metrics. The development of new products and markets, also leverage Discovery Health's unique intellectual property to deliver superior, sustainable earnings over the long term.

The success of our strategy is evident in the performance of the largest open medical scheme, DHMS compared with other open schemes.

	DHMS	Open schemes, excluding DHMS
Membership growth	**1.3%**	**-1.2%**
Market share	**55.8%**	**44.2%**
Operating result	**R995 319 000**	**-R414 034 000**
Net result, including investment income	**R1 976 909 000**	**R643 406 000**
Reserves growth	**13.9%**	**6.0%**
Solvency change	**0.01pp**	**-0.01pp**

The table presents December 2016 to September 2017 figures.

In addition, in line with global healthcare trends, we have increasingly shifted towards contracting with providers on the basis of increased value and quality of care, rather than on price. This involves the detailed monitoring of and reporting on healthcare quality measures, and careful collaboration with hospital groups and health professionals in the development of mutually beneficial value-based contracts and clinical governance projects.

Discovery Health has been reporting on DHMS members' ratings of the quality of care and patient experience in private hospitals. Since its publication on the Discovery website at the end of 2017, the Patient Satisfaction Score (PaSS) has been viewed more than 60 000 times and the overall average satisfaction score has increased from 56% in 2015 to 62.6% in response to the sharing of results, indicating the value of measurement in improving quality of care.

Similarly, we have extended the measurement of care to allow members of DHMS to rate their experience following a visit to their general practitioners (GPs). These GPs are part of Discovery Health's network and have agreed to take part in efforts to raise the quality of care. While we are identifying ways to increase the response from medical scheme members, 89.9% of GPs who were rated received a score of nine or 10 (highest possible score). Another indicator that most GPs are meeting their patients' needs is that 82% of respondents would recommend their GP based on the care they received. These initiatives are fairly new to South Africa and as with other healthcare systems that have been measuring the quality of care, we expect positive outcomes over time.

The key issues that impacted our business this year

1

Claims pressure and managing the impact of medical inflation

High medical inflation remains endemic, driven by a combination of supply and demand factors, and has been exacerbated by the increase in VAT from 14% to 15%. Supply-side utilisation increased by 1.9% and demand-side utilisation by 2.8%. Supply-side increases are influenced by growth in and use of new hospital facilities, as well as high-cost medicines and devices. Key demand-side factors include ongoing adverse selection trends and the increasing burden of chronic diseases and cancer, as well as the gradual ageing of medical scheme members.

To manage these factors, we continue to invest in risk management assets and systems, healthcare quality improvement programmes, an integrated digital technology platform, and data science and artificial intelligence capabilities. Approximately R140 million was invested over the past year, further enhancing Discovery Health's globally leading Shared-Value Insurance model. These investments delivered significant improvements in operational efficiencies, manifesting in reduced call rates and other drivers of operating cost.

2

Tough economic market conditions

Against slow economic growth in South Africa and significant affordability issues for a large part of the population, we have seen some slowdown in growth for DHMS, as well as competition in the middle- and lower-plan ranges. In response, we have addressed the competitive threats in the mid-range plan service through enhanced benefits. We have also optimised our KeyCare contributions and benefits to make access to private healthcare more affordable.

While market conditions are expected to remain tough, we continue to innovate and develop new products to offer value and make access to care easier and more affordable. In May 2018, Discovery Health launched Discovery for Business along with other business units. This is an integrated corporate offering including PrimaryCare (basic healthcare services to the lower income market), Discovery HealthyCompany (a digitally driven, science-based employee assistance programme), as well as Umbrella Fund and Group Risk products. This new offering provides a complete health and wellness solution for businesses and contributes to increases in business productivity and wellbeing. The response has been positive so far, with strong growth and pipelines for all products.

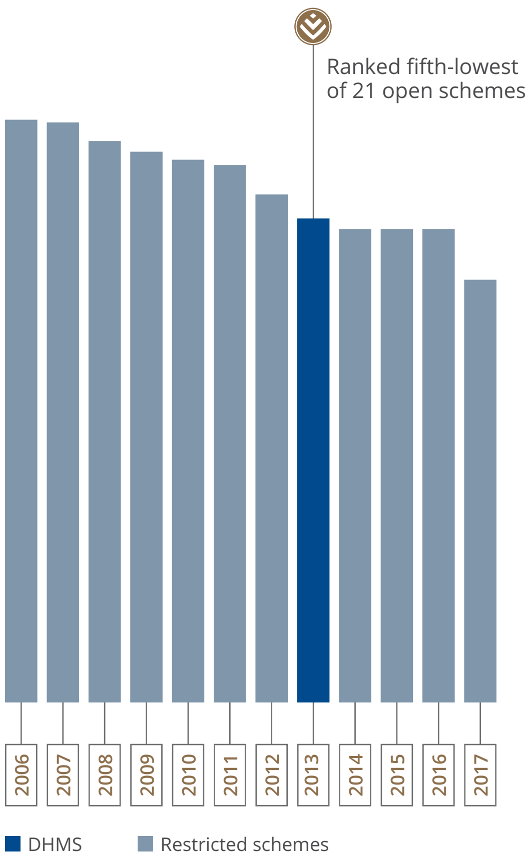
Our fraud control efforts project recoveries for 2018 in excess of R500 million. In the case of DHMS, Discovery Health achieved risk management savings of approximately R5.7 billion during 2017, representing 11.9% of potential risk claims, and a return on investment to the Scheme on its managed care fees of 269%.

Our risk management processes, programmes and model are effective in managing fees and claims costs

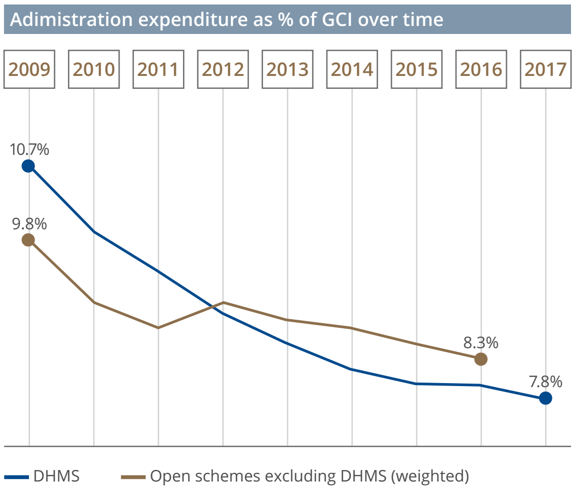
Lowest quartile administration fees

7.9%

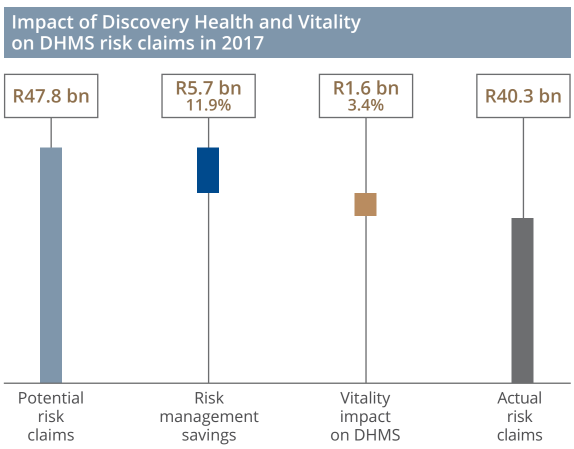
Discovery Health total fees as a % of Gross Contribution Income (GCI)



Decreasing real administration fee increases



Effective interventions to manage claims costs



3

Challenging policy and regulatory environment

Discovery Health currently operates in a challenging policy and regulatory environment. We continue to engage actively with all regulators on key developments, including the Health Market Inquiry, the National Health Insurance (NHI) Bill, and the Medical Schemes Amendment Bill.

Discovery Health maintains its strong support for the proposed policies of the NHI system, and continues to work closely with the National Department of Health and other stakeholders to ensure optimal outcomes.

We plan to participate actively in the hope of making a positive contribution to these policies. We are also engaging with Business Unity South Africa, Business Leadership South Africa and the National Economic Development and Labour Council (NEDLAC) on NHI-related issues.

In response to the publication of the NHI White Paper, the Council for Medical Schemes (CMS) has restarted the Prescribed Minimum Benefits review process. We will also participate in this process. Discovery Health and DHMS are responding to the updated Code of Conduct, as are the Health Funders Association and Board of Healthcare Funders.

Discovery Health continues to participate in the processes of the Health Market Inquiry (HMI) of the Competition Commission, which reported its findings in June 2018.

Most of the findings and recommendations in the provisional report of the HMI are sound and consistent with Discovery Health's views, and will have a positive impact on the private healthcare system if implemented as proposed.

4

Continued investment to maintain leadership position

Discovery Health invests significantly in technology infrastructure and systems development.

As the market leader, we have made significant investments in initiatives aimed at maintaining and improving quality of care, including programmes tailored to members with diabetes, heart disease, kidney failure and those undergoing joint replacement surgery.

Furthermore, the business made significant new investments in big data analytics and artificial intelligence capabilities. This included the launch of DrConnect, a health information and virtual consultation app. Since its launch in August 2017, more than 320 000 medical scheme members and 2 700 doctors have registered for this service. While continuing to enhance the functionality and coverage of Discovery HealthID, the country's leading electronic health record system, which is in regular use by more than 1.7 million medical scheme members and more than 1 990 doctors, there is significant progress in building a fully integrated digital platform to improve the quality of service that members receive.

As part of our goal to build a better healthcare system, we continue to invest in numerous industry initiatives to respond to areas of need. We work closely with the Discovery Foundation to grow the number of specialists in our country, to support the continued pursuit of Academic Medicine and to give medical students financial and other supportive tools.

Read more about the Discovery Foundation and other initiatives in the healthcare system in our Sustainable Development Report.

5

Ensuring data security

South Africa has recently seen incidents of data breaches. As a company that deals with significant amounts of personal data, we take every precaution to ensure we protect our clients against data breaches. We have invested significantly in enhancing processes and controls around data protection and work closely with our risk management teams to ensure compliance with all requirements and international best practice in data privacy.

OUTLOOK

Going forward, Discovery Health will focus on:

- Further entrenching our Shared-Value Insurance model through expanded value-based contracting arrangements and personalised disease management programmes integrated with Vitality.
- Improving service quality and efficiency through optimised member journeys, and deployment of robotic process automation and artificial intelligence applications to further develop the integrated digital platform to enhance interaction and engagement.
- Continued investment in risk management assets and systems that help us manage the effects of medical inflation.
- Continued scaling of the business and supporting international health insurance business developments.
- Continued engagement with all regulators on key developments in the healthcare system to help with the development of an integrated healthcare system that focuses on value and quality of care.

INVESTOR **Q&A**

Q Given that you have 40% market share in a market where growth has been relatively stagnant, where do you see your growth coming from?

A We will continue to focus on identifying opportunities for growth within DHMS, as well as in the closed scheme market. In addition, we see significant potential to grow non-medical scheme revenues through our PrimaryCare, HealthyCompany and Gap Cover products, as well as through monetising our intellectual property in global markets.

Q Are you concerned that your size will result in you being perceived as anti-competitive?

A No. The markets for open medical scheme members and for administration of restricted schemes remain competitive. Discovery Health complies with all regulatory requirements and our administration fees are in the bottom quartile in the market and continue to reduce as a percentage of premium income. Our products and services generate significant value for all stakeholders and we work with the industry to improve care, manage medical inflation and identify partnerships that support an integrated healthcare system.

Q We understand your supportive and cooperative view, but how will NHI/HMI affect your business?

A Please see point 3 under key issues for our business.

Read our response on the role of medical schemes in context of the NHI here: **https://www.discovery.co.za/assets/discoverycoza/corporate/investor-relations/dhms-investors-regulatory-developments.pdf**

Q Are you continuing with interventions to reduce supply-side medical inflation?

A Both demand-side and supply side factors affect medical inflation. We actively engage with the healthcare industry to identify the reasons for increased supply-side demands. We continue to invest in value-based funding mechanisms and other programmes to ensure the best health outcomes, while considering advances and changes in the healthcare landscape. Please see point 1 under key issues for our business.

FACT SHEET

DISCOVERY LIFE

Discovery Life has been a pioneer in applying the Group's Shared-Value Insurance model. The business provides individual and business clients with comprehensive life, capital disability, income protection, severe illness, funeral and other risk protection cover. By integrating Vitality with life insurance, Discovery Life clients pay more accurate premiums that reflect the dynamic nature of their health and their risk profiles. Clients improve their health and other risks, which positively affect lapse and claims rates for Discovery Life. The business now has more than 420 000 individual policyholders and over 500 000 Group Life policyholders.

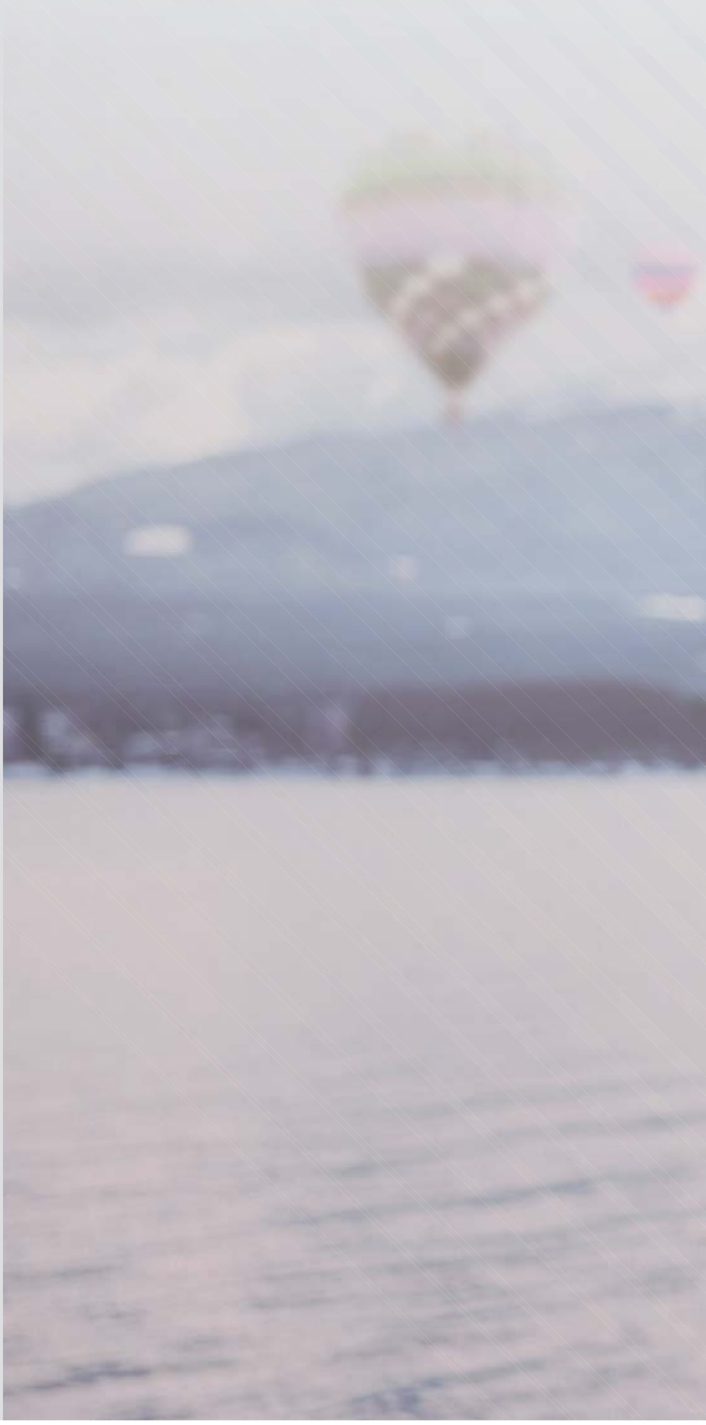
Key data in our business

DISCOVERY LIFE IS SOUTH AFRICA'S
largest
pure risk writer in the intermediary channel

DISCOVERY LIFE WAS THE
first South African insurer
to separate risk from investment, which led significant changes in the industry

IT HAS A
31%
new business market share of the South African protection market
(intermediated retail affluent)

IN THE PAST FINANCIAL YEAR, DISCOVERY LIFE HAD AN OPERATING PROFIT OF
R3 837 million

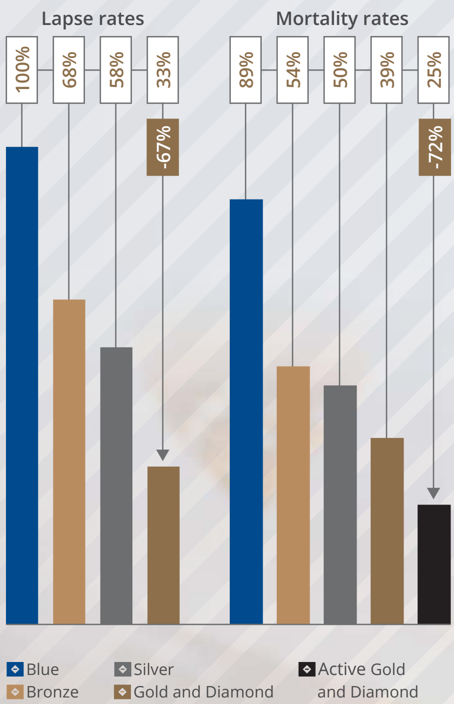


How shared value is implemented in Discovery Life

Discovery Life addresses the problem of underinsurance and helps clients lower their morbidity and mortality through its Shared-Value Insurance model and unique product range. The impact of Discovery Life's incentives for healthy lifestyle behaviour and outcomes have translated into exceptional levels of engagement in Vitality. This engagement has positively influenced the Discovery Life claims and lapse rates over time, despite the challenging economic climate.

Lapse rates for Vitality members on Gold and Diamond Vitality status are as much as 67% lower than for those policyholders who do not engage with Vitality, while mortality risk is 72% lower for Vitality members on Gold and Diamond Vitality status who are physically active at least twice a week.

Shared-Value Insurance model



DURING THE YEAR, DISCOVERY LIFE HAS PAID

R973 million

to clients who have engaged in Vitality and managed their health and insurance risks

This highlights the value derived by healthier clients and the benefits of the Shared-Value Insurance model to both the insurer and policyholders.

DISCOVERY LIFE

OPERATIONAL REVIEW

2018 performance

Over the period, Discovery Life continued to utilise the Shared-Value Insurance model to maintain its market-leading position

New business API increased to

R2 188 million

Earnings

↑ 7%

to R3 837 million, benefiting from a strong second half of the financial year

New business market share

↑ 31%[1] **in the retail affluent protection segment while the value of individual life new business margin grew by 8%,** reflecting a continued focus on quality of new business

Discovery Life remains well capitalised at

3.5x

capital adequacy ratio (CAR) cover and generated cash of

R3 519 million

(including Discovery Invest) from the in-force book over the period

The majority of this was invested in profitable new business growth, ending in a net cash generation of

R539 million

1 *NMG Life Insurance New Sales Report Q2 2018.*

Our strategy and differentiators

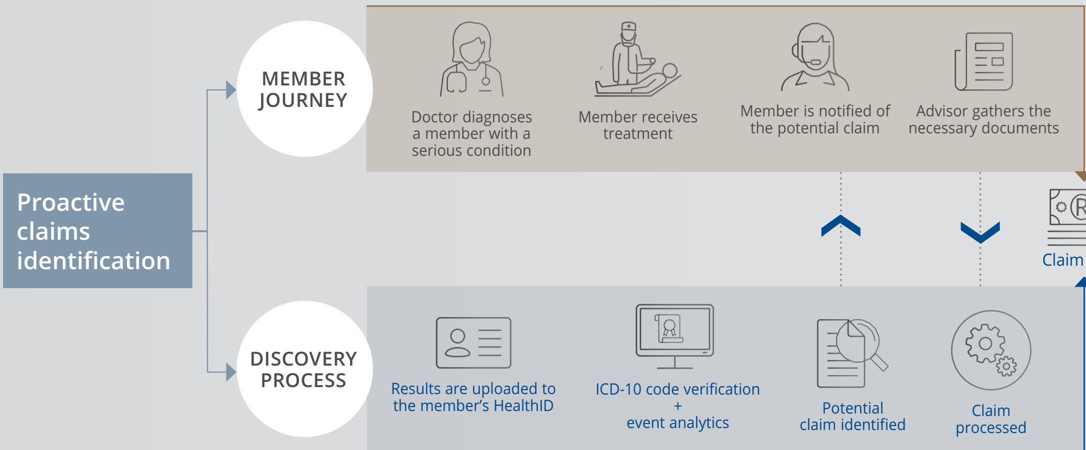
PRODUCT INNOVATION

Discovery Life has a deep focus on innovation. The research and development team adheres to a six-monthly launch cycle to maintain momentum and ensure continuous product development. The focus on constant innovation is evident in a simultaneous growth in market share and VNB margin. The September 2017 product launch focused on creating a tailored product offering to each client segment, which was well received. The Global Education Protector, focused on young families, was ranked as one of the most innovative life insurance products globally in June 2018[2]; the new Purple Life plan offering bespoke benefits to high-net-worth-individuals resulted in a 23% increase in policies over R10 million, and the launch of the Smart plan for under-30-year-olds saw a 16% increase in policies sold to this segment.

ADVANCED ANALYTICS AND ARTIFICIAL INTELLIGENCE

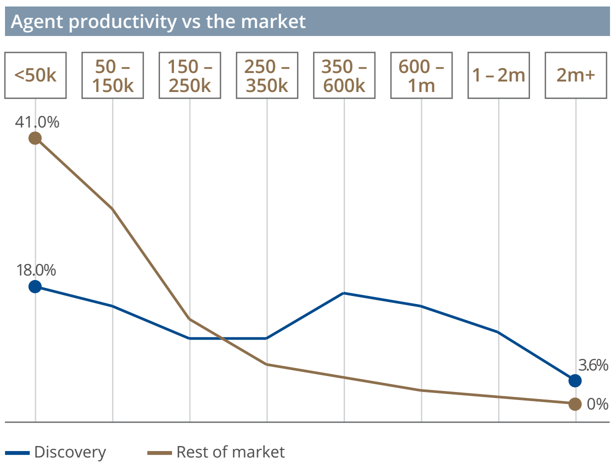
Discovery Life continues to invest in advanced analytics to improve the client experience and better understand and incentivise healthy behaviour. Client health data is used to dynamically underwrite clients, offering up to 30% lower premiums at inception. Clinical data is also used to help policyholders with chronic health conditions to manage their health and reduce their premiums over time.

Discovery Life also proactively identifies potential claims where clients are DHMS members and have given consent through integration. During the year, many claims were paid to policyholders through this proactive process. In addition, to also manage risk, a proprietary fraud identification system has been developed that uses a combination of internal and external data to identify potentially fraudulent claims.



WORLD-CLASS DISTRIBUTION FORCE

A cornerstone of our strategy is to attract high-calibre financial advisers in all channels capable of meeting the requirements of our clients in the retail-affluent segment. Discovery Life's advisers are on average 3.8 times more productive[3] than the market average, driven by the high distribution of highly productive advisers when compared to the market. Discovery Life continues to invest in its tied adviser force – the Discovery Financial Academy recruits university graduates and develops them into world-class Discovery Financial Advisers. There are currently 111 financial advisers in training.



2 EFMA Accenture Global Innovation in Insurance Awards, Paris 2018.
3 NMG Q1 2017 retail affluent market share report.

The key issues that impacted our business this year

1

Claims volatility

The higher-than-expected claims experience for the six months to 31 December 2017 was mainly due to suicides occurring in October and November 2017. Suicides accounted for 16% of claims in the first half of the year compared with 7% for 2016/17. The claims experience normalised in the second half of the financial year, resulting in actual claims being 99% of our actual expectation for the full year.

To manage the long-term claims experience, we have also made good progress in embedding fraud detection models in our claims management process.

Against the high claims experience, the business delivered a positive lapse experience variance, with policy lapses at 84% of our expectation. This again proves the value of our Shared-Value Insurance model and integration with the rest of Discovery's products.

2

Negative policy alterations experience

A growing net negative variance on policy alterations was observed. An initial set of actions was taken in the previous financial year, and a more comprehensive set of actions was implemented in the first half of the current financial year. These interventions ranged from systems and process changes to improved risk rating practices. As a result of these management interventions, Discovery Life experienced a positive variance on policy alterations for the second half of the financial year.

Although the results for the second half of the financial year were encouraging, there was still uncertainty, with management expecting a smaller negative variance to remain. For this reason, in addition to the management interventions, a change in assumption was also implemented to explicitly allow for the impact of policy reductions in the long-term assumptions.

3

Regulatory and compliance requirements

A number of regulatory requirements came into effect during the financial period:

- The new Fit and Proper requirements for financial services providers were published in December 2017. Discovery has updated its product training courses and invested in a strong digital capability to ensure financial advisers meet the new requirements.
- The SAM framework is in effect from 1 July 2018. The implementation of SAM in 2018/19 is expected to release significant capital from Discovery Life, resulting in lower assets being held with lower associated investment income and improved return on capital.
- Discovery Life has a well-defined project plan in place to meet the implementation date for *IFRS17: Insurance Contracts.*

Discovery Life

OUTLOOK

Discovery Life has performed strongly over the financial period and has largely met its goals in terms of Ambition 2018. In the coming year, we will finalise the strategy for the next five years and focus on:

- Growing market share through a continued focus on product innovation and our distribution channels.
- Improving operational efficiency through automation and increased use of advanced analytics.

INVESTOR Q&A

Q How will you grow market share in what has been a relatively stagnant market?

A Discovery Life has consistently grown its market share over the years. New business market share increased to 31% (retail affluent market).

The business consistently launches new products and leads innovation in the insurance industry. The Global Education Protector saw a 135% increase in take-up following this innovation to increase access to tertiary education by monetising policyholders' health. Similarly, with the launch of Purple Plan, there was a 23% increase in the number of policies sold with a value over R10 million.

Q How does the SAM framework affect your business?

A Please refer to regulatory and compliance requirements under key issues.

Q Please explain negative experience variances and how these are being mitigated?

A Please refer to negative policy alterations experience under key issues.

Read Discovery Life and Discovery Invest Experience variances on **www.discovery.co.za** under Investor relations.

We have placed additional technical information about our accounting policies, cash-flow generation and our application of cashless FinRe on **www.discovery.co.za** under Investor relations.

DISCOVERY INVEST

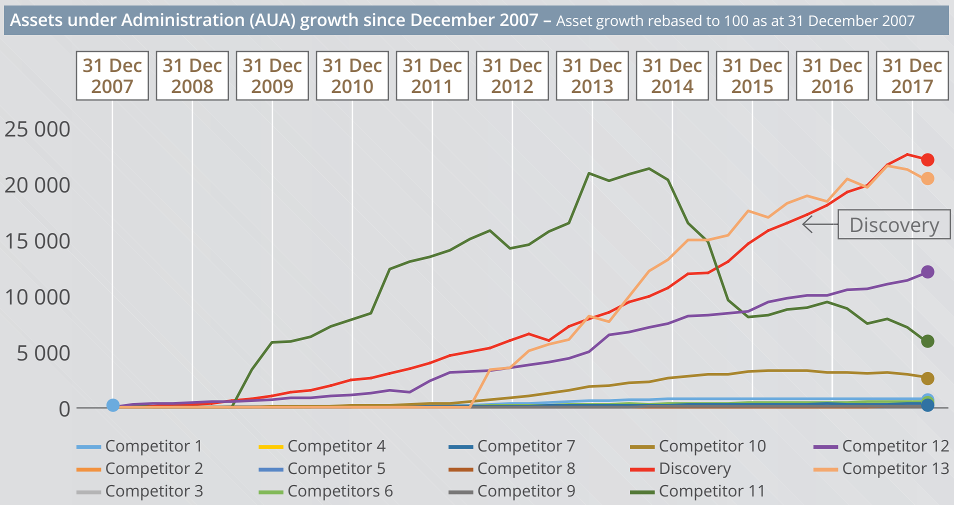
Discovery Invest aims to become South Africa's premier long-term savings provider, with the objective of being recognised globally for the effectiveness of our Shared-Value Insurance model in investment.

Looking at the retirement landscape, less than 6% of South Africans can retire comfortably, leaving over 90% with a significant retirement shortfall. This is exacerbated by the trend of increased longevity due to medical advances, and the impact this has on sufficient levels of retirement savings. Through the Shared-Value Insurance model, clients are encouraged and rewarded for positive behaviour changes that would result in increased retirement savings.

Clients are encouraged to invest for longer, invest more, become healthy and withdraw income wisely in retirement. We reward clients for these positive behaviour changes with boosts to their retirement savings that significantly increase their retirement funds. Through rewards for positive behaviour, clients are able to significantly reduce the gap in retirement savings.

The actuarial dynamics underlying this model manifest in above-market long-term outcomes for clients and sustainable profitability for Discovery Invest, and has a positive societal value in closing the retirement savings gap.

Key data in our business



Source: Investec Asset Management Data (end December 2017).

DISCOVERY INVEST HAS CONSISTENTLY BEEN ONE OF THE FASTEST-GROWING UNIT TRUST COMPANIES BASED ON YEAR-ON-YEAR GROWTH IN ASSETS UNDER ADMINISTRATION (AUA)

We achieved a

26%

three-year compound annual growth rate in AUA

DISCOVERY INVEST HAD A RECORD MONTH OF NEW BUSINESS

in June 2018

DISCOVERY INVEST HAS MORE THAN

288 000

clients

THE BUSINESS HAS BEEN IN EXISTENCE FOR ONLY

11 years,

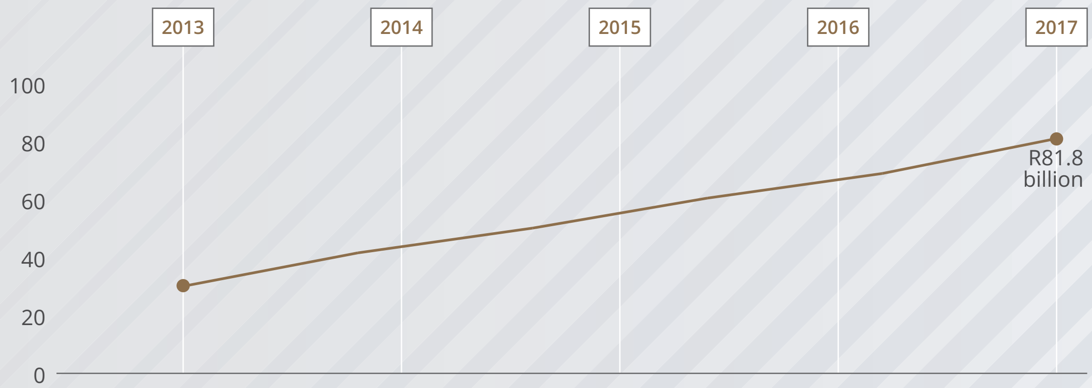
with growth in AUA of

18%

over the year to R81.8 billion as at June 2018

Source: UBS South African insurance sector Q2 2018 Unit trusts ups and downs.

Assets under administration (AUA) (R billion)



Our funds have been top quartile performers as at 30 June 2018, and:

DISCOVERY BALANCED FUND was the top quartile performer for years one, three, five, seven and 10

DISCOVERY MODERATE AND CAUTIOUS BALANCED FUNDS were top quartile performers in years one, three and five

THE THREE DISCOVERY DYNAMIC ASSET OPTIMISER FUND OF FUNDS were top quartile performers in one year

THE DISCOVERY GLOBAL VALUE EQUITY FEEDER FUND was a top quartile performer in years one and three

Source: Morningstar

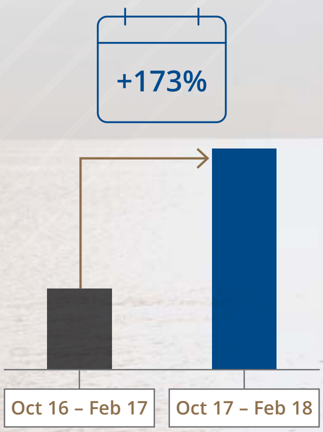
How shared value is implemented in Discovery Invest

Our shared-value approach to investing is unique. We offer investment plans that encourage positive behaviour change. Clients are rewarded for making sound financial decisions and living a healthy lifestyle.

They are encouraged to invest earlier and for longer, save more, select sustainable income drawdown levels in retirement, and to maintain a healthy lifestyle through engagement in Vitality. Healthier clients' funds remain invested for longer. This allows us to earn additional fees and enables us to share surplus profits with our clients in the form of significant boosts to their retirement savings.

Since we have introduced the shared-value model into our products, we have seen significant positive behavioural change from our clients. Clients are saving on average three years longer in pre-retirement compared to the average South African investor. They are also improving their Vitality statuses and reducing their yearly retirement income drawdown rates.

Clients are saving on average 173% more in additional contributions into our lump sum Core Retirement Annuity for the period ending February 2018, relative to the period ending February 2017.



OPERATIONAL REVIEW

2018 performance

Operating profit

↑ 19%

to R885 million

↑ 18%

AUA to R81.8 billion

77%

of linked funds

are in Discovery funds

In May 2018, Discovery Invest launched an

Umbrella Fund together with a revised Group Risk PayBack product

under a new Discovery employee benefits solution

The key issues that impacted our business this year

1

Closing the financial savings and retirement gap

Global trends are indicating that people are spending more time in retirement due to a longer life expectancy. This has resulted in a retirement funding gap. To help address this issue, Discovery Invest's Shared-Value Insurance model encourages and rewards clients to change their savings and drawdown behaviour. Following the success of this approach with our individual investment products, we have now also extended this offering to corporates. During the year, we launched our Umbrella Funds business, which is a combination of our umbrella employee benefits offering and our Group Risk offering. We introduced a number of improvements to our products, as well as targeted offerings. These included our Purple offering for high net-worth clients with unmatched boosts for clients younger than 30 years of age. We also introduced a competitive Flexible Investment Plan with zero administration fees.

2

Managing lapse rates

Difficult market and economic conditions have seen an increasing rate of withdrawals across the industry. Discovery Invest continues to track and investigate lapse and paid-up rates carefully to understand the causes.

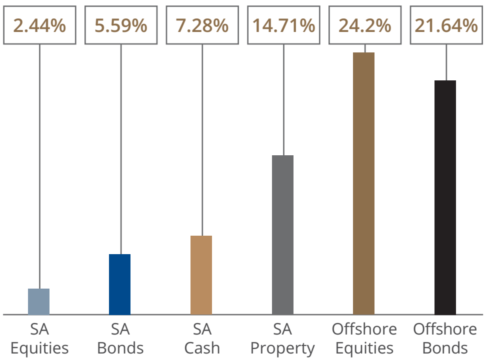
Our distribution model, new initiatives, integration with other Discovery products such as Vitality and Discovery Life, and unique incentives, ensure our clients stay invested and continue to close the retirement gap. Lapse rates continued to decline over the past two years and remained below the expected value at year end.

3

Current economic environment and market conditions

We continued to face tough economic conditions during the year. Returns on property have been negative and South African equities low.

Latest one-year returns on asset classes as at 12 September 2018



In these conditions, people are generally risk averse. Thus, we placed an even greater emphasis on maximising value for clients through our Shared-Value Insurance model, strong distribution force and several appealing offers. Based on positive financial and health behaviours, we can give value to clients independently of market conditions. For example, clients investing in our Linked Annuity were treated as having at least Silver Vitality status for the first two years on determining their retirement income boosts. This gives clients time to achieve a Vitality status that gives them the maximum possible rewards.

Our focus on improving the client and financial adviser experience combined with these initiatives allows us to perform well in tough markets.

In addition to top quartile performance, as at 30 June 2018:

Discovery Invest ranked as one of **the top five unit trust managers** in the country*.

Discovery Invest had the **8th highest net retail flows in the industry**, with the Discovery Balanced Fund having the **9th highest industry flows**.**

* *PlexCrown Survey: Discovery Balanced, Discovery Moderate Balanced and Discovery Cautious Balanced Funds all achieved 5 Crowns.*

** *ASISA stats from Investec Report 2018 Q1. Retail funds excluding money market, and fund of funds including reinvestment.*

4

Expand distribution

A critical component of our growth is to continually expand our distribution channels, with distribution through independent financial advisers, an important focus.

Currently, almost 70% of our business originates from tied agents and 30% from independent financial advisers. To ensure ongoing expansion across our distribution channels, we ensure we have compelling products. We offer enhanced products for younger clients, for clients who reinvest their Discovery Life cash back, and a Purple range to meet the needs of high-net-worth clients.

Amendments to Fit and Proper regulations during the period require all financial advisers to complete an examination. To assist in this process, we have made substantial progress with the development and implementation of relevant product and investment training programmes.

5

Continual innovation

We continue to innovate and develop new offerings to ensure ongoing growth and differentiation. For example, we launched share portfolio capabilities in Q1 of 2018, and continue to offer an offshore investment option through our Guernsey branch. Our share portfolio offers clients new avenues to generate returns and the flexibility to seamlessly carry their portfolios across to our platform. Discovery Invest also acted as the foundation for the launch of VitalityInvest in the United Kingdom, which uses a similar model, benefits and connection to Vitality.

OUTLOOK

Discovery Invest's aim is to be recognised for our investment model and the value it offers.

We will achieve this through:

1. Ongoing product innovation, which will involve continued differentiated offerings, as well as ensuring that each investment plan is best of breed in value, and offers a competitive position.
2. Focusing on distribution through penetrating the IFA market, targeted campaigns and increasing sales from all agents.
3. Exceptional service with a fully-automated functionality, which will translate into a more client-centric focus and lower operating costs.
4. Continued technological advancements, which will build on the online offering for financial advisers and the interactive client statements.
5. Harnessing opportunities that the launch of Discovery Bank will create.

INVESTOR Q&A

Q **Are your fees under pressure?**

A Fees around the world have been consistently under pressure, including fees in the chain of advice, administration and asset management. Research* has indicated that administration fees, over the 10-year period from 2008 to 2018, have reduced on average by approximately 0.21%.

To evaluate our current position, we compared the effect of reducing fees against positive behaviour change. This fee reduction of 0.21% on average over the past ten years equates to around seven days of additional investment growth. However, when looking at the effect of behaviour change, clients who invested in our Flexible Investment Plan for a month longer would have experienced significantly higher extra investment growth. It is therefore evident that the impact of positive behaviour change, such as investing for longer, is more valuable than reducing fees.

* *moneyweb.co.za/investing/sas-top-unit-trusts-over-ten-years*

Q **Explain the impact of utilisation of assessed losses.**

A Our assessed tax loss is reaching its end and the advantage of the integration on endowments will fall away. In the past, we provided gross of tax returns on endowments. We have therefore restructured our recurring endowment plans to be more competitive by giving clients a portion of their administration fees back after five years. We have also revamped the Flexible Investment Plan for clients with a discretionary investment need.

Q **Give more information on Umbrella Funds.**

A Our new Umbrella Funds offer has the Shared-Value Insurance model and Vitality as the foundation. For example, the Fund encourages clients to transfer, rather than use, any retirement savings when changing employment. Clients also receive various boosts to their retirement savings before and during retirement. These boosts are based on increasing contributions towards retirement funding as they earn more, preservation of retirement funds when changing employment, and when they get healthier and drive better. They can also reinvest PayBack on Group Risk premiums in the Umbrella Fund.

Q **Tell us more about the Retail Distribution Review (RDR) and your readiness for implementation.**

A We continued to engage with the Financial Services Board (now Financial Services Conduct Authority) on regulations around the RDR and are well positioned to respond to any required changes. We have also been working hard to implement requirements of the Protection of Personal Information Act and have made good progress on its practical implementation.

Q **How do your products cater for older people?**

A Our Linked Retirement Income Plan offers clients income boosts of up to 50%. The boost is based on how healthy clients are, measured by their engagement in Vitality, as well as their level of income withdrawals.

FACT SHEET

DISCOVERY INSURE

Discovery Insure provides personal and commercial short-term insurance. Motor insurance currently represents the greatest segment of our portfolio. We also offer comprehensive building, household content and portable possessions insurance with fair and efficient claims processing. During the year, we launched the commercial insurance business. It is based on Discovery Insure's philosophy of using the latest technology to cover clients against modern and emerging insurance risks.

Discovery Insure's innovative driver-behaviour programme, Vitality Drive, encourages safer driving behaviour and rewards good driving. Since founding the business in 2011, data relating to driving behaviour has been gathered through our continually evolving telematics technology. Clients receive regular feedback and rewards for their improved driving behaviour.

Key data in our business

8 billion kilometres
of driving data gathered since 2011

828 000 kilometres
of free Uber rewards over four years, equivalent to 40 trips around the world

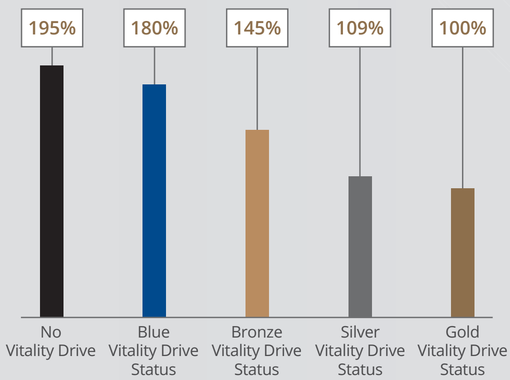
R550 million
in fuel cash back over seven years

500 000
Active Rewards claimed over three years

MORE THAN
R5 billion
in claims settled over seven years

The net claims ratio of clients who are not on Vitality Drive is 95% higher than that of Gold status clients.

Relative net claims ratio by Vitality Drive status



DURING THE YEAR, WE BUILT ON OUR MODEL BY INTRODUCING SHARED-VALUE COMMERCIAL INSURANCE

In the first month of operation, we received just over

700
unique quote requests

How shared value is implemented in Discovery Insure

Our ambition is to create a nation of great drivers by using our Shared-Value Insurance model. The model is differentiated in the market through offering a competitive premium and using telematics to retrospectively reward good driving. Telematics data is also used to safeguard clients by alerting emergency services of an accident or abnormal driving patterns, and sending emergency support where necessary.

This model works through:

- Improving the driving **behaviour** of clients who are engaging with Vitality Drive, with an average improvement of 17% in driving behaviour over one month.
- Experiencing 40% lower **lapses** for good drivers compared with those who are not.

These factors result in a 25% lower absolute loss ratio of clients who remain on our books compared with those who leave. This also results in a 17% lower loss ratio of our matured book compared with our top four comparable personal lines short-term insurance competitors.

MAKING OUR ROADS SAFER

As part of creating a nation of great drivers, Discovery has partnered with ChildSafe to improve the driving behaviour of child-transporters. We recognise the best driver for the month and the best driver of the year. By competing with each other, the child transporters have shown an average of 10% improvement in their acceleration, braking, cornering and speeding scores over three years.

Read more about this initiative in our Sustainable Development report on our website, **www.discovery.co.za**.

OPERATIONAL REVIEW

2018 **performance**

R2.7 billion
(excl. VAT) in gross premium income

R55 million
profit for the personal lines business
↑ 228%
year on year

The maiden full-year profit was
R68 million
(Including Cambridge Mobile Telematics)

R1.05 billion
(excl. VAT) new business API –
↑ 17%
year on year

Covers approximately
200 000
vehicles

R213 billion
in assets covered

R39 million
invested in setting up the commercial insurance business offering

Our strategy and differentiators

Since founding the business in 2011, data relating to driving behaviour has been gathered through our continually evolving telematics technology. We offer competitive premiums, telematics and unique rewards for good driving behaviour.

This has resulted in the selection of better risk and behaviour change in our client base. We have seen a significant improvement in driver scores, lower claims frequency, accident severity and selective lapsation. Our technology offering includes a number of safety features and regular rewards also continue to drive improved behaviour and create client loyalty.

Digital innovation is at the core of our business and we continue to develop new offers and integrate technology into our business to improve the client experience. These factors result in a low loss ratio and appealing value of new business. Our product and strategy also resonate well with financial advisers and tied agents because of the rich benefits.

During the year, we extended our model into the commercial and fleet insurance market.

We are also pursuing a strategy of expanding internationally, and to this end, partnered with Cambridge Mobile Telematics (CMT) who are leaders in smartphone telematics. The work we do with CMT continues to add value to both our businesses.

The key issues that impacted our business this year

1

Ensuring continued improvement in client engagement

Engagement has been identified as a significant lever to improve lapse rates. A segmental analysis of clients (based on engagement levels) was completed and we developed a strategy in response. As phoning clients has been the most successful method of getting them engaged, a call centre was established that contacts clients who have a good driving score but are not receiving the fuel cash back. So far, results from these initiatives have shown a 17% improvement in driving behaviour of clients who started engaging in Vitality Drive. We will use the performance of existing campaigns to determine additional engagement initiatives.

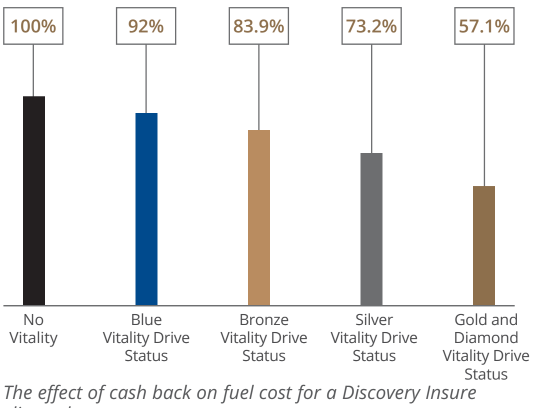
2

Operating in tough market conditions

We are currently operating in tough market conditions in South Africa. Pleasingly, even in these conditions, we have seen 17% year-on-year growth in new business.

One development that poses a threat to affordability of insurance has been the fact that the South African driver has experienced several fuel price increases between 1 July 2017 and 30 June 2018. Our Vitality Drive fuel cash back has protected our clients from the full effects of these fuel increases.

Reduction in fuel price for typical driver



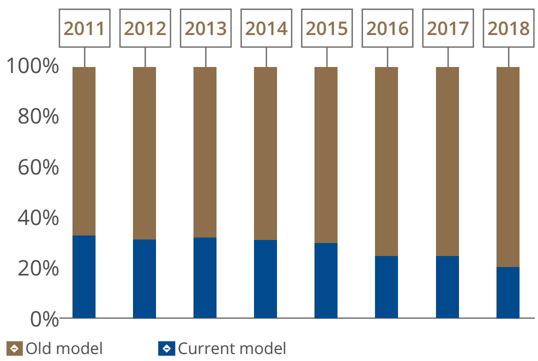
The effect of cash back on fuel cost for a Discovery Insure client who:

- *Has car and home contents cover*
- *Had their car inspected at Tiger Wheel & Tyre*
- *Has a car with a 60 litre fuel tank; and*
- *Fills up twice a month.*

The fuel price used of R15.54 per litre was the price of 93 octane petrol in June 2018.

During challenging times, people tend to cancel or lapse their insurance policies because they don't see insurance as an essential product. Although our lapse rates have remained stable due to our appealing product, we have seen that clients tend to keep their existing cars for longer. Below is a graph showing how the proportion of older model cars has been increasing over time.

Proportion of older model cars vs newer models



Discovery Insure

3

Continued product improvement

During the year, a key progression was the launch of our commercial insurance offering. The primary industries covered are manufacturing, business and personal services, retail and wholesale trades, construction and associated risks, transport, storage and communication risks.

In addition to a best-of-breed core insurance product, innovations such as cyber insurance, cover for crisis and reputational issues, and enhanced cover for business interruption will play a part in disrupting what has been a fairly stagnant industry. This offering also includes Vitality Drive to provide a comprehensive fleet management platform and safety features for small, medium and large businesses.

We have appointed critical skills in the areas of pricing, underwriting, risk management, operations and distribution to ensure the successful implementation of commercial insurance.

In addition, we continued to enhance our core product and Vitality Drive. For example, we introduced HomeSafe, which allows clients to alert family when they are travelling. We have also successfully implemented CrowdSearch Stolen Vehicle Recovery. This does not only involve the recovery of vehicles, but also allows for perpetrators to be arrested using Discovery's unique assets.

OUTLOOK

Looking ahead, we aim to:

- Grow our international business with CMT.
- Invest further in technology to enhance the digitisation of our client on-boarding and ongoing servicing. We expect to have a higher expense ratio than the market average, as the rest of the market is not investing as much in technology.
- Manage our expense ratio to be below 30% over the next two years. We expect the business to continue to grow with a reduction in the loss ratio.
- Target new business API market share of between 10% and 15% in the next financial year by continuing to leverage our Shared-Value Insurance model and Vitality Drive.
- Focus on growing Discovery Insure for Business, our newly-launched commercial insurance offering.

INVESTOR Q&A

Q What is your market share? Given your rapid growth since launch, what growth can be expected going forward and how will you achieve this?

A We estimate our market share by gross written premium to be 5% of the personal lines short-term insurance market in South Africa, and we are targeting new business API market share of between 10% and 15% in the next financial year. Over the next two years, we expect the business to continue to grow with a reduction in the loss ratio.

Q Provide more details on the Business Insurance rationale and the product offering.

A Please refer to point 3 (on this page) under key issues that impacted our business during the year.

Q Do you have plans to expand internationally?

A We are pursuing a strategy of expanding into international markets. We have partnered with CMT who are leaders in smartphone telematics.

FACT SHEET

VITALITY UK

Vitality UK consists of VitalityHealth and VitalityLife. During the year, VitalityInvest was launched, which will extend the successful Shared-Value Insurance model into the long-term savings market in the United Kingdom.

Vitality HEALTH INSURANCE

VitalityHealth offers an integrated medical insurance and wellness proposition to individuals and, predominantly, small and medium enterprise clients. The holistic healthcare solution integrates prevention and health promotion with traditional illness cover.

Vitality LIFE INSURANCE

VitalityLife provides individual and business clients with life, capital disability, severe illness and income protection cover. The Serious Illness Cover protects policyholders for almost four times as many conditions as other providers. VitalityLife is the only life insurer that encourages and rewards policyholders for being healthy through a range of Optimiser products.

Vitality INVEST

VitalityInvest combines behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and take steps to look after their health. Successful delivery is reliant on financial planning and cash flow modelling tools that combine traditional financial metrics with life expectancy insights. VitalityInvest uses Vitality's proprietary research on life expectancy, through Vitality Age. Vitality Age and the life expectancy insights have been developed in collaboration with the University of Cambridge and RAND Europe.

Key data in our business

VITALITYHEALTH AND VITALITYLIFE ARE IN THE
top 5
market leaders

OPERATING PROFIT
↑ 44%
to R1 104 million

LIVES COVERED
↑ 11%
to 1 084 million

46%
prompted brand awareness

Vitality HEALTH INSURANCE

The business has maintained strong growth across all markets with lives covered reaching
577 000

MEMBER ENGAGEMENT:
36 million
total points-earning activities

49%
of new business from the profitable individual market

Cash generated by the in-force portfolio exceeds cash spent on new business acquisition

Vitality LIFE INSURANCE

The business has been successfully refocused for a low interest rate environment

Indexed premium products make up 39.6% of the business mix, up from 24% in 2014

NEW BUSINESS INTERNAL RATE OF RETURN IS
4 times
higher than risk-free

THE BUSINESS NOW COVERS
507 000
lives

Vitality
HEALTH AND LIFE INSURANCE

How shared value is implemented in Vitality UK

VITALITYHEALTH

Shared value has particular relevance in the UK due to the significant role the government plays in supplying healthcare through the National Health Service (NHS). The NHS may result in an under-investment in health and wellness in the private sector. This creates a requirement to increase public awareness and to create greater accountability among consumers for their wellbeing.

This forms the basis of Vitality's product, brand and marketing approach. We inform people of their risks and reward them for making healthy choices. By improving our clients' lifestyle behaviour and subsequently their long-term health, as well as providing traditional illness cover, VitalityHealth can help to significantly reduce the healthcare burden.

- Through the Shared-Value Insurance model, VitalityHealth has seen a lower claims cost among members who exercise five days a week when compared with those who exercise only once a week.
- The business has also seen a lower lapse rate among members engaged with Vitality and who have a higher Vitality status.

VITALITY ENGAGEMENT FOR VITALITY UK

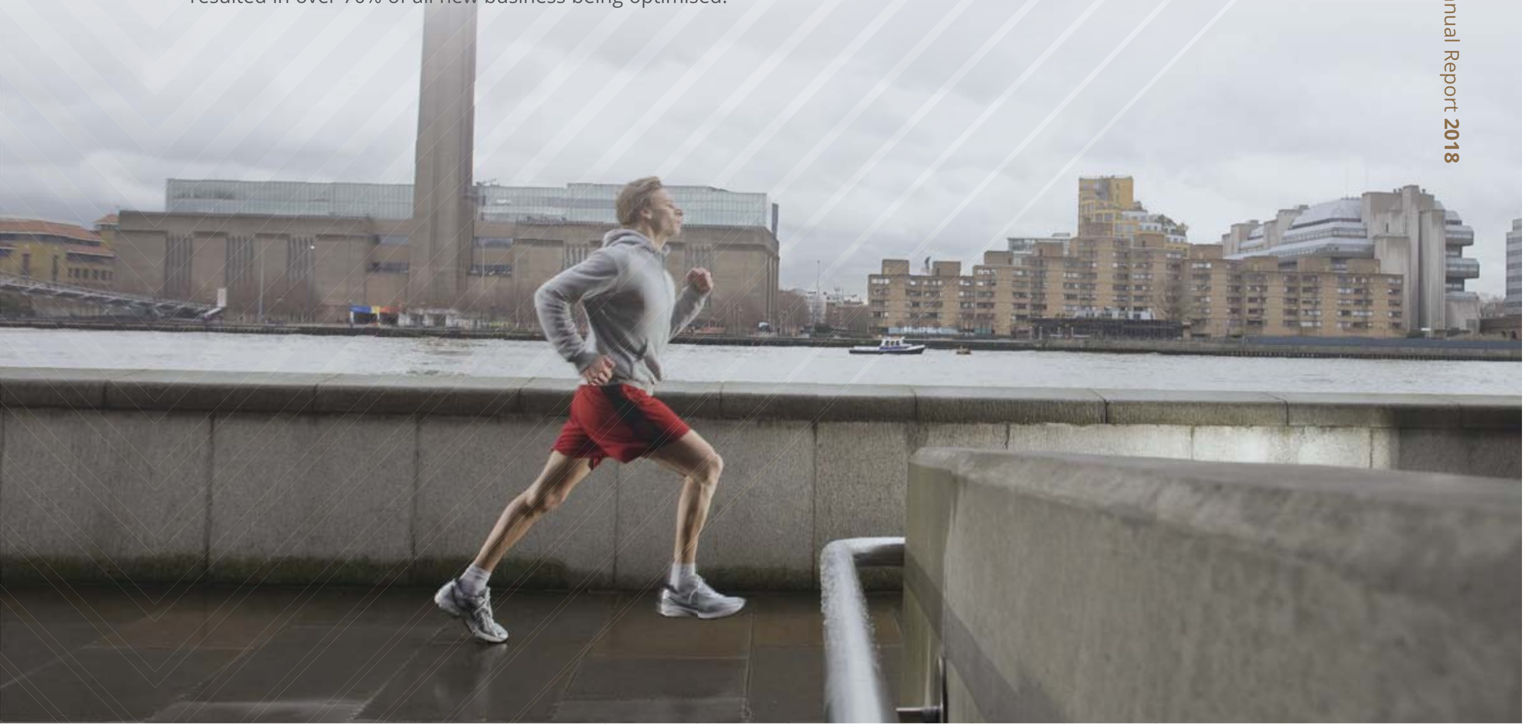
65 000 Apple Watches

468 000 Ocado HealthyFood deliveries

250 000 page views on the online Vitality Kids Hub

VITALITYLIFE

Following the successful creation of the Shared-Value Insurance model in South Africa, it was exported globally, first in the United Kingdom. VitalityLife clients can participate in the Vitality Optimiser, which integrates VitalityLife products with Vitality. VitalityLife offers a unique proposition in the market by enabling clients to benefit from Vitality rewards, including upfront premium discounts, dynamic pricing and PayBack according to their health profile. Following the success of the Optimiser products launched in 2016, VitalityLife introduced a new version of the product aimed at smaller policies. The combined impact resulted in over 70% of all new business being optimised.



VITALITY UK
OPERATIONAL REVIEW

2018 Performance

Vitality HEALTH INSURANCE

New business

↑ 14%

to R1 107 million (£64 million)
with the individual segment up 13%, representing half of total sales

Operating profit

↑ 108%

to R589 million (£34.0 million)

Lives covered

↑ 7%

to 577 000

During the financial year, the VitalityHealth back book generated excess cash of R1.6 billion. After new business acquisition costs and the investment in developing the business, R475 million of cash surplus was generated

Vitality LIFE INSURANCE

VitalityLife achieved record sales of

R1 172 million

(£67.7 million) up 10% from 2017

Operating profit

↑ 5%

to R515 million (£29.7 million)

Strong sales for the year resulted in the business surpassing the milestone of half a million lives insured during 2018

Lives covered

↑ 15%

to 507 000

The new business margin is

39%

from 36% in the previous year

Vitality
HEALTH AND LIFE INSURANCE

Our strategy and differentiators

VITALITY UK

We have created a unique retail franchise around health through our sponsorship assets and marketing campaigns. During the year, Vitality grew its ambassadors to include Heather Knight, England's women's team cricket captain, and Jos Butler, England's men's team cricket batsman and wicket keeper.

In addition to the existing sponsorship partners, Vitality is now also the Official Wellness Partner of England Hockey, the official sponsor of Back to Hockey and the title sponsor of the Vitality Hockey Women's World Cup 2018. Vitality increased its footprint in football by becoming the Official Health Insurance Partner of Chelsea FC and the Official Wellness Partner to Leicester City FC, Cardiff City FC and Newcastle United FC. Vitality also increased its footprint in cricket by becoming the new title partner of the T20 Blast, International T20 and recreational T20 cricket. Building on the partnership with England Netball, initiatives focus on further establishing Vitality's position in Women in Sport.

Through Britain's Healthiest Workplace, a research survey among participating British employers, we have assisted corporates to understand the cost of ill health for employers and to build the business case for investment in workplace health.

Prompted by the launch of VitalityInvest and to ensure support for our growth ambition and composite model, Vitality performed a strategic review of the brand architecture, positioning and tagline. The business launched a new tagline, 'Positively Different', using a roll-out approach that began with the launch of VitalityInvest in June.

VITALITYHEALTH

VitalityHealth offers a holistic healthcare solution that integrates prevention and health promotion with traditional illness cover. Through Vitality, clients are encouraged to understand and improve their health. Vitality has recorded 36 million points-earning activities, up 66% from the previous year.

By driving engagement with Vitality, we aim to deliver industry-leading loss ratios and lapse rates, resulting in sustainable margins, and a return on capital of risk-free + 10%. Vitality Active Rewards, pioneered in the United Kingdom, has resulted in record levels of physical activity and significant early evidence of real behaviour change in the complex area of physical activity.

Vitality GP is one of VitalityHealth's proprietary health-tech primary care assets. This service is being developed further to provide access to health information, video GP consultations, face-to-face appointment booking, and self-referral for physiotherapy and psychology therapy sessions. This market-leading offering aims to improve healthcare outcomes for members and manage risks.

VITALITYLIFE

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 and our distribution footprint continues to grow.

The steady and continued adoption of the Shared-Value Insurance model (Vitality-linked products comprise approximately 70% of new business), has been a key driver of the increasing value of new business margin, which improved from 36% to 46%. VitalityLife's continued product innovation ensures more capital-efficient products with a focus on business mix.

The key issues that impacted our business this year

Vitality HEALTH INSURANCE

1

Britain's exit from the European Union

The effect of a pressurised economy continues to pose a significant risk to the industry. A poor economy could lead to lower discretionary income, which could impact membership of personal medical insurance. Any mass transfer of jobs to Europe could also result in a decline in group health insurance membership. As VitalityHealth is not exposed to large corporate clients, the risk from job losses is limited. On the positive side, funding and staffing concerns in the NHS could be exacerbated by Britain's exit from the European Union, resulting in greater demand for private healthcare.

2

Ongoing product innovation

VitalityHealth continues to invest in Vitality capabilities in an increasingly competitive landscape. Recent product enhancements offer a holistic health and wellbeing solution. The launch of Vitality Kids in partnership with Disney engages with children on healthy activities and healthy living. The launch of a new Healthy Mind component also addresses the important area of mental health and wellbeing.

We are also enhancing access to primary care services. This includes telemedicine and face-to-face GP services, as well as physiotherapy services. The Vitality GP app will offer a more robust digital journey for members to access services. The face-to-face GP services will continue to improve the level of coverage and efficient member engagement.

3

Technology and digital assets to ensure quality and efficiency

VitalityHealth continues its investment in digital assets to achieve key service ambitions and provide members with seamless and integrated solutions. This includes enabling technologies to not only deliver outstanding member experiences, but also to empower our service operations teams. These investments are still in the implementation phase. Once implemented, it will ensure the business keeps up with changing member demands, removes barriers to engagement and creates cost efficiencies across service operations.

4

Navigating regulatory developments

The General Data Protection Regulation (GDPR) came into effect in May 2018. The GDPR forms part of the data protection regime in the United Kingdom, together with the new Data Protection Act 2018. The GDPR is not only a compliance issue, but an opportunity to improve transparency and trust. We ran an extensive readiness programme at Group level (Health, Life, and Invest). This included revising our policies and standards, privacy notices, remediating third party and partner contracts, data breach management, information security, information processing, and data management for big data and analytics.

Our customer relationship management platform was also enhanced to manage customer communications and the appropriate consent. This is supported by a data management platform to create a single view of a client. We completed comprehensive employee training and awareness to ensure our employees are fully prepared.

We participated in various working groups with leading insurance companies in the United Kingdom to shape and align the industry. We also defined a consistent methodology for portability of data with leading financial advisers and insurance companies. We are looking at risk controls in Phase II of the project that will run until the end of 2018.

Vitality LIFE INSURANCE

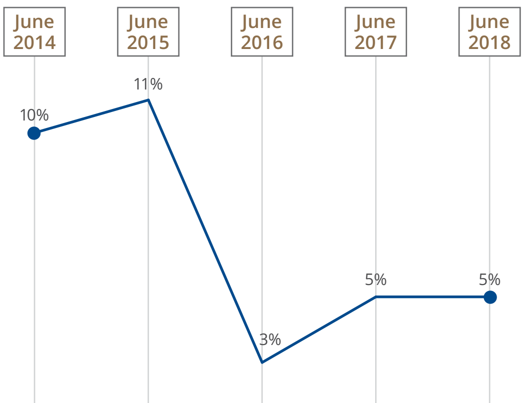
1

Volatile interest environment

Against a low interest rate environment, VitalityLife has restructured and priced its business, with a focus on term products and Vitality integration. This has been well received and has assisted us to improve our VNB margin. The VitalityLife investment rate assumption was reviewed and set in line with the long-term risk-adjusted yield expected from a basket of fixed-interest securities to improve stability and reliability of IFRS results.

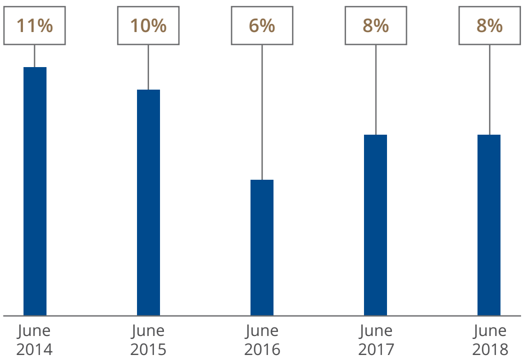
Maintained VNB margin

VNB margin (annualised)



New business internal rate of return (IRR) four times higher than risk-free

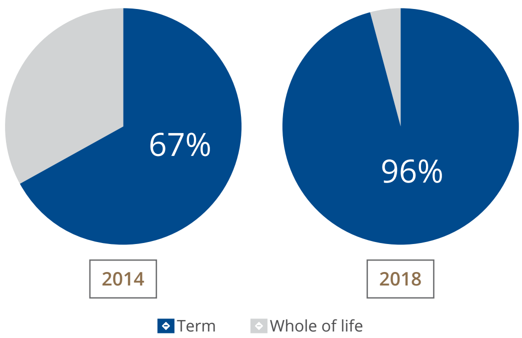
New business IRR



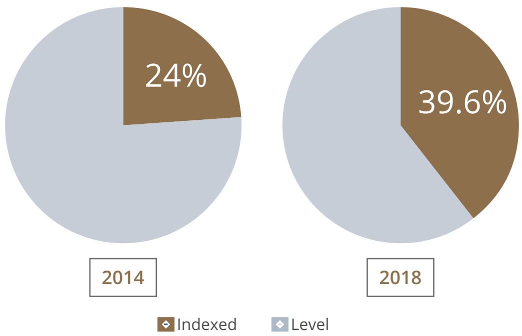
VitalityLife has also continued to strongly promote the benefit of indexed policies in protecting customers from the financially eroding effect of inflation. This has resulted in 39.6% of new business sold this year being indexed policies, where both annual premium and cover amount increase with inflation over time. Indexed policies ensure cover levels remain suitable to clients over the life of their policy, and provide an additional source of premium income for VitalityLife over time.

Business reconfigured over time for low interest rate environment

Term assurance new business mix



Indexed premium new business mix



2

Growth in distribution

Following 11 years of organic growth, we broke through the half a million client level. This has placed VitalityLife firmly among the ranks of established protection providers in the United Kingdom and provides a strong base for future sales.

As our distribution footprint increased across all channels this year, VitalityLife sales volumes achieved record levels for the last two quarters. Overall sales for the financial year were up approximately 10% on the previous year.

Vitality LIFE INSURANCE

3

Continued product innovation

During the year, we continued to lead innovation in the United Kingdom protection market. Following the immense success of our Optimiser products, we launched a new version of the Optimiser product for smaller policies. This, combined with continued uptake of the Optimiser products, resulted in 70% of new business being sold this year with an Optimiser.

Optimiser products reward customers for being healthy by flexing their insurance premium depending on their Vitality engagement and health. Supported by an increased uptake in Optimiser products, we have seen continued growth in client engagement with Vitality. Emerging VitalityLife experience continues to support the value of increased client engagement, with engaged clients generally exhibiting a lower claims experience and higher persistency than non-engaged clients.

4

Expanding our offering

The launch of VitalityInvest represents the next evolution in the United Kingdom and sees the extension of the Shared-Value Insurance model into this long-term savings market. VitalityInvest brings together behavioural economics, savings and wellness to incentivise people to save sooner, invest for longer, manage their income drawdown and take steps to look after their health.

The initial product range include individual savings accounts, self-selected personal pensions and an income drawdown. Across the business in the United Kingdom, there is a focus to build on the single Vitality platform to integrate products and customer journeys, and to offer clients more value from their healthcare, life cover and long-term savings products.

Leadership through technology improvements

VitalityLife was awarded the prestigious Celent Model Insurer Award in the category for Operational Excellence. This reward provided recognition for the Vitality Nurse programme, which has revolutionised medical evidence collection for VitalityLife by bringing it in-house and drastically reducing the time to obtain results through automation and the use of technology.

OUTLOOK

VITALITYHEALTH

Key focus areas going forward will include:

- Ongoing focus on the quality and efficiency of our digital assets to ensure a seamless offering for clients. For example, we will focus on enhancing the role of telemedicine.
- Using our learning from Britain's Healthiest Workplace to support and equip businesses to improve their employees' health, productivity and engagement.
- Continued strong growth in profitable individual and small and medium enterprise business, while also achieving strong growth in the corporate market on a marginal cost basis, which will provide a contribution to fixed costs. We will achieve this through product design and pricing sophistication.
- Focusing on launching new initiatives in the United Kingdom that leverage the Vitality brand, are customer based and use proven application of the Shared-Value Insurance model.

VITALITYLIFE

Similar to VitalityHealth, VitalityLife will maintain a focus on:

- Continued new business growth across all markets. We will achieve this through product design and pricing sophistication.
- Continued growth in the distribution footprint across all channels.
- Ongoing focus on the quality and efficiency of our digital assets to ensure a seamless offering for clients.
- Focusing on launching new initiatives in the United Kingdom that leverage the Vitality brand, are customer-based and use proven application of the Shared-Value Insurance model.

We will also focus on:

Growing the VitalityInvest business by applying the Shared-Value Insurance model to the long-term savings market in the United Kingdom.

INVESTOR **Q&A**

Vitality HEALTH INSURANCE

Q Is the loss ratio sustainable?

A We believe it is, yes. The superior claims performance is due to the combined effect of Vitality on selection, retention and risk, sophisticated care pathways, tariff improvements and a re-engineering of the claims management process. Sustainability is driven by the multifactorial nature of the loss ratio. In addition, Vitality has a positive ripple effect on many factors contributing to the loss ratio. For example, member selection, retention and risk. As we continue to improve Vitality to effectively change behaviours that affect risk, it will continue to have a positive impact on the loss ratio.

Q How will you grow your market share?

A We have already been successful in attracting new business through our direct to consumer channel. Through product design and leveraging the brand, we will continue to position ourselves as the provider of choice among new-to-market individuals. In addition, we will pursue product innovation to attract an increasing portion of the market's switcher business.

Q Why do you use FinRe in the protection business?

A FinRe allows us to more accurately match acquisition cost to the expected lifetime value of the policy. As our new business is heavily weighted to individual policies with high commission fees, understanding the acquisition cost in context of the expected lifetime value is particularly important.

Vitality LIFE INSURANCE

Q What is the outlook for interest rates and how will movements in interest rates affect your financial results?

A As outlined under our key issues, we have reconfigured our business for the interest rate environment, with a focus on term products and Vitality integration. This has been well received and has assisted us to improve our VNB margin. The investment rate assumption was reviewed and set in line with the long-term risk-adjusted yield expected from a basket of fixed-interest securities. This move to a long-term view of the investment assumption improves the reliability and stability of IFRS results.

Q How will you grow market share?

A We will continue to refine our product design and pricing sophistication, and use the value of Vitality to grow our market share. Emerging VitalityLife experience continues to support the contribution of Vitality when looking at new business. Increased client engagement in Vitality also shows clients generally exhibit lower claims and higher persistency than non-engaged clients. We will also look for opportunities that allow for integration with VitalityHealth products.

FACT SHEET

VITALITY GROUP

Vitality Group is responsible for Discovery's expansion of Shared-Value Insurance beyond South Africa and the United Kingdom. The business fully leverages the capabilities of Discovery and the Global Vitality Network and forms equity or contractual partnerships with leading insurers to integrate Vitality and shared value with partner's insurance and financial services products in the markets where they operate. Vitality Group also offers wellness solutions to corporate clients and other industries in the United States.

Vitality Group operates in 17 countries (including China)

EQUITY PARTNERSHIPS

中国平安 PING AN

myOwn health insurance

CONTRACTUAL PARTNERSHIPS

AIA Vitality

GENERALI Vitality

John Hancock Vitality

Manulife Vitality

SUMITOMO LIFE Vitality

Equivida

Saludsa

IGI Life Vitality

VITALITY USA

Vitality

Corporate wellness offering in the United States through Vitality USA

Vitality

Key data in our business

THE NEW VITALITY ONE SOLUTION
is a globally unified systems architecture that markets can access, allowing rapid and economical deployment to our partners

INSURANCE PARTNER MEMBERSHIP
↑ 91%
to approximately 800 000
and Vitality Group membership reached
1.56 million*
(excluding Ping An Health).

VITALITY GROUP IS NOW PROFITABLE
which was achieved through strong growth and efficiencies across operations

* *Membership represents full Vitality members only.*

How shared value is implemented in Vitality Group

Vitality Group aims to grow the reach of the Shared-Value Insurance model around the globe. This model, pioneered in South Africa, is replicated in global markets to offer partner insurers the same value delivered in Discovery's primary markets.

In global markets, Vitality Group integrates tailored Vitality programmes with partner insurance products to drive additional value in areas our partner insurers have identified. We do so through growing the products and business lines that we integrate with, and by continually improving the value proposition.

Vitality Group is supported by the Global Vitality Network to create an ecosystem where the assets are available to all markets and the value generated from positive selection and behaviour change is shared among the participants.

OPERATIONAL REVIEW

2018 performance

Vitality Group achieved strong growth efficiencies, which were driven by new business growth and from merging the United States and South African operations.

Vitality Group Maiden profit (excluding Ping An Health)

US$2.6 million

(R34 million)

compared to a loss of $8.5 million (R115.6 million) in 2017

Membership (excluding Ping An Health)

↑ 25%

to 1.56 million clients

The Vitality-integrated insurance premiums

↑ 78%

to US$390 million (R5 billion)

Ping An Health revenue

↑ 80%

to RMB 4.9 billion

Discovery profit from Ping An Health

↑ 279%

to US$4.4 million

(net of Discovery costs)

Our strategy and differentiators

Our business model is centred on these key pillars:

- Partner selection and on-boarding
- Creating a business plan for each market and the different lines of business
- Ensuring efficient and timeous implementation in each market
- Applying assets and learnings to drive success
- Continuous innovation and improvements
- Using data and actuarial capabilities throughout the process, enabled by the technology platform

The key focus areas for our business this year

The business has performed well and is positioned for growth.
We continued our focus on our broad strategy and worked on the following:

01

EXPLOIT LATENT POTENTIAL

by increasing the three measures below:

Vitality attachment	Number of lines of business and products integrated with Vitality Shared-Value Insurance
Vitality takeup	Number of clients choosing Vitality-integrated products vs traditional insurance
Engagement	Number of clients actively engaging with Vitality as well as our value proposition

02

NEW INSURANCE PARTNERS

Adding new partners

15	new partners identified
11	discussions to partner
7	developing business case
4	completed business case
3	signed intention to partner
4	new partnerships

VITALITY ACTIVE WITH HANNOVER RE

Vitality Group's success with its insurance partnerships and Hannover's existing global reach have resulted in significant opportunities, which are being developed. The venture currently has four committed partners who have signed agreements and will be taking Vitality into their markets before the end of 2019. There has been great progress in developing a strong sales pipeline through Vitality Active.

03

ADJACENCIES

Developing and rolling out innovative offerings and Vitality One

04

OPTIMAL USE OF VITALITY PERFORMANCE DATA

The strategy is developing well and there are more markets to be signed on in the next 12 months. Vitality Group is also working to expand the Active Rewards with Apple Watch to other channels.

PARTNERSHIPS

中国平安 PING AN

China

Market launch: 2010

Global Fortune 500* ranking: 29

Revenue (US$bn): 144.2

Ping An Health

Launched the Ping An Health App with excellent uptake.

myOwn health insurance with AIA Vitality

Australia

Market launch: 2017

myOwn

Generated AU$22 million in new business in the first year of operation.

We partnered with AIA and a local Australian Health Insurer in an equity partnership to launch myOwn Health insurance integrated with Vitality during July 2017. myOwn made good progress during its first year of operations. Significant effort is being made to take the product and distribution learnings into 2019 and help develop and grow the business to its potential.

AIA Vitality

Pan Asia

Market launch: 2013

Global Fortune 500* ranking : 295

Revenue (US$bn): 38.3

AIA

Launched AIA Vitality in Korea during August 2018.

AIA Vitality, the most mature Vitality Group insurance partnership, continued its exceptional performance with strong growth in new business, membership and engagement. As at 30 June 2018, Vitality is integrated with over 60 AIA products and live in 10 AIA markets. Over the period, new business Annualised New Premiums (ANP) grew by 85% and Vitality membership grew by 110%. ANP is an internally-used measure of new business sales or activity for all entities within AIA.

GENERALI Vitality

Europe

Market launch: 2016

Global Fortune 500* ranking: 59

Revenue (US$bn): 100.6

Generali Vitality

Partnered with Germany's biggest distribution channel, Deutsche Vermögensberatung.

Good progress was made over the year to expand the distribution channels and enhance the products in these markets. Following the launch of Vitality to the Deutsche Vermögensberatung network, Vitality membership grew by 40%.

* *2017 Global Fortune 500 list.*

Vitality

John Hancock | Vitality
Manulife | Vitality

US and Canada

Market launch: 2016

Global Fortune 500* ranking: 241
Revenue (US$bn): 44.9

John Hancock and Manulife Vitality

Membership grew by 118%.

Both John Hancock Vitality and Manulife Vitality demonstrated strong sales growth, increased engagement and an uptick in NPS over the period. The increase in sales was achieved through the launch of new Vitality-integrated products, increasing financial adviser and consumer adoption, and the strong performance of the direct to consumer channel in the United States.

SUMITOMO LIFE | Vitality

Japan

Market launch: 2018

Global Fortune 500* ranking: 350
Revenue (US$bn): 33.8

Sumitomo Life Vitality

Launched shortly after the end of the period and undergoing preparations to take Sumitomo business onto Vitality One.

IGI Life | Vitality
Saludsa
Equivida

Ecuador and Pakistan

Market launch: 2019

Vitality Active

Signed up four new partners.

Equity partnerships

Contractual partnerships

Vitality USA – US Corporate Business

Vitality USA is making significant progress in extending its Apple Watch and Active Rewards offering beyond employers.

Vitality USA also extended its platform through their Gateway offering to give companies access to a curated list of health applications and services. The business is set to launch new wellness initiatives, which include an integration with the Apple Watch Series 4 for Active Rewards and the Vitality Healthy Mind programme, which will focus on mental health and wellbeing.

We envisage substantial growth in Vitality USA as a result of these developments.

Working with Ping An Health to support the growth strategy

The market for health insurance and private healthcare in China has continued to grow. China's private health insurance coverage and premiums per capita are still significantly less than those of advanced industrialised economies. China leads the world in fintech adoption, which has resulted in the accelerated rise of premiums from health insurance products distributed through the Internet. In line with this, Ping An Health's Internet product showed exceptional growth and performance. Ping An Run Vitality, integrated with Ping An Life, has over four million members with an engagement rate of 68%.

Discovery has a 25% equity partnership with Ping An Health. New business

↑ 87%

to RMB 2.9 billion (R5 738 million)

Written premium

↑ 80%

to RMB 4.9 billion (R9 695 million)

The business fundamentals remained strong, with lapses meeting expectations and the overall loss ratio performing better than expected. Over the past two years, the business mix moved significantly towards individual retail products. The Group high-end and individual mid-end products continued to make good progress. No additional capital is required to support the expected growth and statutory capital over the next three years. Discovery has provided up to R500 million in its existing capital plan for Ping An Health to maintain its A-rated reinsurance rating.

GROWTH IN DISTRIBUTION CHANNELS AND TECHNOLOGY FOR CONTINUED GROWTH AND EFFICIENCY

Ping An Health successfully maintained its reinsurance licence for national distribution of products. This enables Ping An Life agents to sell Ping An Health products in regions where Ping An Health does not have an insurance licence. From this, Ping An Health gains access to underwriting profits through a reinsurance agreement with Ping An Life. In addition, Ping An Health is working on initiatives to develop further distribution channels and expand into other cities and provinces.

The aim is to use technology to become China's largest health insurer.

PING AN HEALTH APP

The Ping An Health App supports the distribution of health insurance products and member servicing. It has 8.5 million registered users, with 10 000 new users registering daily. Premium revenue sold directly on the app exceeded RMB 100 million in the second half of the 2018 financial year. It was the first Internet insurance app to reach breakeven within two years of its launch and is widely recognised in the industry.

ENHANCING PROTECTION FOR CANCER THROUGH ALL CHANNELS

Ping An Health launched a cancer protection product on the Ping An Health App, providing cover for consultations, tests and for in- and out-patient services. This product aims to encourage younger people to download the app and buy products for their parents in the target age range of 45+. A similar product, for people up to the age of 70, is also for sale through all other channels, including through Ping An Life agents. Together, these products have achieved more than RMB 1.5 million in sales each day since their launch.

OUTLOOK

Vitality Group's overarching objective is to grow its global footprint by continuing to deliver on Shared-Value Insurance outside Discovery's primary markets. To achieve this, we will focus on the following:

GROW BUSINESS

- Continue to invest Discovery's assets and knowledge in Ping An Health and myOwn to build quality health insurance businesses.
- Develop products in Ping An Health that meet the needs of the rapidly developing market, and build the distribution capabilities and reach.
- Deepen the penetration of Vitality-integrated products by continuing to offer compelling Shared-Value Insurance offerings.
- Convert the sales pipeline into partnerships to launch Vitality Active under Vitality Group's partnership with Hannover Re.
- Continue to pursue adjacent revenue growth opportunities in the United States.

IMPLEMENT THE CURRENT PIPELINE OF INNOVATIONS

- Ensure that the technology development to create Vitality Active and Vitality One is of high quality and results in exceptional performance.
- Migrate our insurance partners to Vitality One and increase the number of partners on the platform over the next three years.
- Enhance Vitality Group's value proposition through the launch of a series of Vitality innovations to address health risk factors such as mental wellness, weight management, nutrition and ageing.

Q Expand on the investment in Vitality One and which partners will use this technology?

A Vitality One, supported by the Global Vitality Network, offers a unified technology architecture supporting existing markets and roll-out into new markets. We invested US$35 million in its development to date. Vitality One is highly configurable to allow the efficient and effective roll-out of innovations to existing and new markets. The first insurance partner to use this technology is Sumitomo Vitality. We are working with other insurance partners to access the technology and new partners will use this technology from the start. There is ongoing investment to add more features, functionality and partners.

Q How much can Vitality Group expand? What are the areas for growth and which market is most exciting or shows the most potential?

A Although we can't provide a numerical forecast, we are excited about the growth potential of Vitality Group within its existing partners, new markets and adjacent lines of business. In the medium-term, Vitality Group is driving growth within its existing partners by increasing the number of products Vitality is integrated with, increasing the value proposition to drive higher selection of integrated products and driving member engagement in the product. Over the longer-term, the addition of new partners in new markets and additional lines of business across all partners will be the growth engine.

Q Expand on partner contract terms, the economics, duration of contracts and termination clauses.

A Our partner agreements are subject to confidentiality and details of the various constructs cannot be disclosed. We have equity partnerships (investments) with Ping An Health and myOwn Health Insurance where we directly participate in the earnings of the business as a shareholder. Our contractual partnerships with, for instance, AIA and John Hancock, are all unique to ensure it is optimal for the respective partnerships and markets. We place high value on partnering with like-minded insurers who are committed and believe in Shared-Value Insurance with Vitality for long-term value creation for our partners' clients, our partners and our business. The contracts are long-term duration, usually 10 – 20 years with renewal terms. Our intellectual property, brand, Vitality performance data and capabilities are well protected and we participate in the value generated through a combination of fixed and variable fees linked to the success of the partnerships. In the event of a partnership terminating, we will earn on the value created during run-off and we have secured appropriate market re-entry terms.

Q Expand on competitors in this market.

A Competitors in this market are increasing and our offering is often compared with new health apps or health tech companies. While we invest significantly in and employ technology in expanding shared value and measuring insurance risk, our work is to enhance the value of insurance and to help people adopt positive behaviour change to improve lives and lower the risks that are associated with higher insurance premiums.

Q How do you protect your intellectual property from competitors and from partners?

A The Discovery Group is focused on protecting its intellectual property. The mechanisms and processes that are in place to protect general intellectual property are also applied strictly to the protection of Vitality's intellectual property.

Vitality has collected data over an extended period. The principles of Vitality and its related products are fairly straightforward. However, the level of analytical complexity that contributes to predicting behavioural changes on mortality and morbidity curves is profound. Over time we have been able to understand:

- clinical outcomes;
- which incentives shift behaviour and to what extent;
- how the clinical outcomes and shifts in behaviour play out actuarially; and
- most importantly, how to price these extrapolations.

Through Vitality, the Group has gained tremendous insight and depth of knowledge, and our resource capability has become extensive. The Group protects this valuable intellectual property by:

- filing trademarks and patents, where appropriate;
- ensuring that comprehensive non-disclosure agreements are in place for all interactions we have with any third party;
- contracting comprehensive licensing arrangements with our partners. These licensing arrangements address the ambit of usage rights granted to our partners during the currency of our agreements and the consequent protection on and after termination; and
- managing access rights to source code and ensuring that our employees sign strict confidentiality agreements.

REPORTING, REMUNERATION AND GOVERNANCE

About this report

This report has been prepared in line with the guidelines of the International Integrated Reporting Council.

The report aims to present readers with a complete view of our business, strategy, the issues that are material to our business, and how we create value through our Shared-Value Insurance model.

This Integrated Annual Report is supplemented by a separate Sustainable Development Report in which we provide additional information about our progress against global and local sustainable development objectives.

Our Sustainable Development Report is compiled in line with the G4 guidelines of the Global Reporting Initiative (GRI) at a core level. It also outlines our progress against the United Nations Global Compact (UNGC), of which we became a signatory in 2015.

SCOPE AND BOUNDARY

In this report, we cover the operations of:

- Discovery Limited, including Discovery Health, Discovery Vitality, Discovery Life, Discovery Invest, Discovery Insure and the start-up businesses, including Discovery Bank developments in South Africa
- VitalityHealth, VitalityLife and VitalityInvest in the United Kingdom
- Our international operations under Vitality Group.

We identify where non-financial data applies only to our South African-based businesses.

GOVERNANCE AND COMPLIANCE

During the year under review, Discovery complied with the mandatory principles of governance, as contained in the JSE Listings Requirements, as well as with the principles of King IV on Corporate Governance for South Africa (King IV™). We have assessed the requirements of King IV™ and comply with the mandatory requirements. Refer to our governance report on **www.discovery.co.za**, which provides more information about our Governance Framework compliance.

MATERIAL ISSUES FOR REPORTING

We identified issues which represent some of the most material challenges for our business today. These were identified by the executive management team in our business, from a review of key risks identified in our governance structures, and from engagement with external stakeholders.

We discuss material issues throughout our report and have included details in the governance section, as well as in the detailed governance report published on **www.discovery.co.za**, which supplements our reporting.

STATEMENT OF APPROVAL BY THE DISCOVERY BOARD OF DIRECTORS

The Discovery Limited Board of Directors approved the 2018 Integrated Annual Report on 12 October 2018.

Approval was provided following review by the Board of Directors, assessment of content by Group Internal Audit, and the recommendation of the Discovery Audit Committee.

Monty Hilkowitz
Chairperson of the Discovery Limited Board of Directors

PREPARATION OF DISCOVERY'S ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Annual financial statements

L van Jaarsveldt CA(SA) and A Nel CA(SA) (prepared)

D Viljoen CA(SA) FCMA (supervised)

Embedded value statement

M Curtis FASSA, FIA (prepared)

A Rayner FASSA, FIA (supervised)

STATEMENT FROM DISCOVERY GROUP INTERNAL AUDIT

Discovery Group Internal Audit conducted a limited review of the quantitative data in the Discovery 2018 Integrated Annual Report, with the exception of the annual financial statements.

Set out below is a summary of the procedures performed to verify the financial and non-financial information in the Integrated Annual Report, as well as key performance indicators, and the GRI's indicators in the Sustainable Development Report (and related website) for the year ending 30 June 2018.

Discovery Group Internal Audit obtained an understanding of:

- The stakeholder engagement process.
- The selection and application of reporting policies.
- The factors that management considered in preparing the Integrated Annual Report and the Sustainable Development Report (web-based report).
  - Discovery Group Internal Audit made enquiries of management, employees and those responsible for preparing the Integrated Annual Report and the Sustainable Development Report (web-based report).
  - Discovery Group Internal Audit inspected relevant supporting documents, as well as internal sources (as confirmed by management), and obtained external confirmation and management representation, where necessary, for the purpose of the audit engagement.
  - Discovery Group Internal Audit conducted analytical procedures and limited tests of detail responsive to the risk assessment and the level of assurance required. This included a comparison of judgementally selected information to the underlying source documents from which the information in these reports has been derived.

Based on the evidence obtained in completing this limited assurance engagement, Discovery Group Internal Audit believes the quantitative information in the Integrated Annual Report and the Sustainable Development Report sufficiently and appropriately represents the Group's performance for the year ended 30 June 2018.

FEEDBACK

We value feedback on our reporting.
Please send your comments to
askthecfo@discovery.co.za

CONTACT US

Mr Deon Viljoen
Discovery Financial Director
+27 11 529 1855

HOW WE REPORT TO OUR STAKEHOLDERS

In addition to our Integrated Annual Report, stakeholders can also refer to our other reports, which provide detailed information on Discovery, our prospects and our financial, operational and social performance.

Integrated Annual Report

Our Integrated Annual Report provides our financial, economic, and social performance in relation to our business strategy going forward.

www.discovery.co.za/info/2018annualreport

Annual financial results presentation

A presentation of Discovery's Annual Financial Results to investors.

www.discovery.co.za/info/2018presentation

Full annual financial statements

This presents the full annual financial statements and administration requirements.

www.discovery.co.za/info/2018financials

Sustainable Development Report

This report and detailed website chart our relationship with broader society. It describes how we work with partners to achieve common sustainable development goals, and how we create value.

www.discovery.co.za/info/2018sdreport

Governance and compliance

We have included a summarised governance section focusing on governance, compliance and regulation in this report.

A detailed governance report, including information on our risks, compliance and King IV™ compliance, is available on our website.

www.discovery.co.za/info/2018governance

Remuneration report

1 BACKGROUND STATEMENT

At Discovery, we recognise the importance of our people as an essential underpin to our Shared-Value Insurance model. Talented employees, liberated to do their best and achieve their potential, contribute to the success of our business.

In the context of Discovery's expanding global footprint and our goal to become the world's best insurance organisation, continued innovation is essential. To achieve sustained innovation, it is necessary to attract and retain the best talent. Our remuneration philosophy supports this strategy.

Report by the Chairperson: Remuneration Committee

I am pleased to present our Remuneration Report, which is structured as follows:

1 Background statement of the factors influencing the remuneration strategy and remuneration outcomes for the financial year

2 Our remuneration policy

3 The implementation of the policy

The report also demonstrates that Discovery's remuneration approach is aligned with our overall business strategy and is based on the principle of pay for performance.

BACKGROUND STATEMENT

This is our first report that fully complies with the King IV™ standard. The Remuneration Committee (RemCo) and management team also focused on the following areas during the course of FY2018:

FOCUS AREA

- **Review of remuneration practices so that they can be aligned with the business strategy.**
- **Review of incentive schemes to ensure they address challenges experienced in attracting and retaining talent and critical skills.**

What it means

RemCo considered the following proposals:

1. For long-term incentive scheme performance measures to be better aligned with the Group's organic growth model.
2. On whether or not the current phantom share long-term incentive scheme should be modified to allow for an equity-settled long-term incentive scheme.
3. To vary, by employee level, the portion of deferred awards which vests subject to continued service only, and the portion which vests subject to performance conditions.

FOCUS AREA

- **Ensuring that the Group continues to focus on fair and responsible pay as reflected in its remuneration practices.**

What it means

RemCo reviewed its Terms of Reference and the remuneration policy to ensure that they reflect a commitment to fair and responsible pay.

FOCUS AREA

- **Engaged with shareholders about our 2017 remuneration report and policy, although the votes against it were lower than the 25% threshold.**

What it means

RemCo considered inputs received from shareholders on our remuneration policy and its implementation, and took this into account for management action and in the compilation of this report.

Following our review, changes to the remuneration policy were considered and approved by RemCo during the year:

- The performance conditions for our Phantom Share Scheme were amended for better alignment with the Group's strategic approach to long-term organic growth and value creation. The single performance condition of normalised headline earnings per share (HEPS) growth of CPI + 1.5% has been adjusted to a balanced approach, which includes multiple performance conditions that incorporate the Group's strategy relating to the organic growth methodology (refer to page 103 in the policy section). The organic growth model targets Group operating profit growth of CPI + 10% through a methodical and substantial investment in new initiatives (set at 10% of earnings), which evolve into emerging businesses (with a target profit growth of CPI + 30%), and ultimately scale into established businesses (with a target profit growth of CPI + 5%), while driving return on equity.
- That a portion of the phantom share awards to employees at General Manager and below should not be subject to performance and may vest based on their continued employment (refer to page 103 in the policy section).

SHAREHOLDER ENGAGEMENT AND FEEDBACK

Although the dissenting votes from a proportion of shareholders represented at the last annual general meeting (AGM) did not reach 25%, we engaged with some of these shareholders to obtain input about their concerns.

Shareholder votes in favour

REMUNERATION POLICY

76.65%

in 2017

86.06% in 2016
78.38% in 2015

IMPLEMENTATION REPORT

77.25%

in 2017

86.06% in 2016
78.38% in 2015

NON-EXECUTIVE DIRECTORS' FEES

84.93%

in 2017

99.99% in 2016
89.70% in 2015

Below, we summarise responses to some of the specific concerns raised through shareholder engagement.

Feedback

Individual performance disclosures are not clear enough

Actions taken: Improved performance disclosures in the implementation report.

There should be more than one metric for vesting of phantom share awards

Actions taken: Migration from the single, waterfall normalised HEPS growth measure for vesting of phantom shares, to the growth methodology model as a measure of vesting. Refer to page 103.

A short vesting period for long-term incentive plans (LTIPs)

Actions taken: Our LTIPs vest in four equal tranches starting from the second year from the date of the award until the fifth year from the date of the award. Performance for each vesting tranche is measured from the date of the award. Tranches one to four are therefore measured over a two, three, four and five-year period. This is illustrated in the policy section on page 103.

Discovery will once again put the remuneration policy and implementation report to two separate, non-binding votes at the AGM on 26 November 2018. In the event that 25% or more of the shareholders vote against the remuneration policy or the implementation report, Discovery will include a note in its SENS announcement for the AGM results inviting dissenting shareholders to engage with the Group on their reasons for voting against these resolutions. The precise method of shareholder engagement will be decided by RemCo, but may include:

- Email and teleconference
- Investor roadshows (where feasible)
- One-on-one meetings with shareholders.

The results of the next shareholder engagement and RemCo's response to shareholder concerns will be published in the remuneration report for the next financial year.

Focus areas for FY2019

RemCo will be focusing on a number of areas in FY2019 to:

- **Further improve our remuneration policy to ensure increased alignment with shareholder interests.**
- **Align remuneration to performance outcomes.**
- **Deliver on our intent to retain talent.**
- **Ensure that our pay practices are fair and responsible, and that they support our transformation agenda.**

FOCUS AREA
Fair and responsible pay

What it means

RemCo will continue to monitor our remuneration practices to ensure that any potential for unfair bias is eliminated, and that remuneration practices reflect Discovery's commitment to fairness and the attraction and retention of top talent.

FOCUS AREA
Policy on minimum holding requirements for Executive Directors and Prescribed Officers

What it means

RemCo will consider proposals for the introduction of a policy on minimum holding requirements for senior executives, along with its consideration for an equity-settled scheme.

FOCUS AREA
Forfeiture and clawback policies for variable pay

What it means

RemCo will consider proposals for the introduction of a policy and process for forfeiture of unvested awards or unpaid short-term incentives, and the clawback of vested awards or paid short-term incentives, as part of managing conduct and risk through remuneration.

FOCUS AREA
Review incentive target levels

What it means

Due to continuing challenges in attracting and retaining key talent for our businesses, RemCo will monitor and review competitiveness of our total rewards, with an emphasis on the on-target incentive payment levels.

FOCUS AREA
Equity-settled scheme

What it means

RemCo will continue with its review of an equity-settled long-term incentive scheme to replace the current Phantom Share Scheme.

REMUNERATION GOVERNANCE

RemCo met four times during the past financial year.

	August 2017	October 2017	December 2017	June 2018
S De Bruyn Sebotsa (Chairperson)	✓	✓	✓	✓
H Bosman	✓	✓	✓	
MI Hilkowitz	✓	✓	✓	✓

All RemCo members have the relevant skills and experience to perform their duties. RemCo members are also members of other key committees that enable them to monitor risk trends across the Group. Members of executive management and Mr B Olivier (independent remuneration expert) attend RemCo meetings by invitation.

Executive Directors are not allowed to participate in discussions about their own remuneration and they are not able to vote at the meetings.

In conducting its work over the period, RemCo considered advice and input from the following sources:

- PricewaterhouseCoopers Inc. (PwC) for improved adoption of King IV™ requirements.
- PwC REMChannel and Mercer for salary and incentive benchmarking information.
- Vasdex for adoption of good remuneration governance practices.

RemCo is satisfied that the input from these sources is credible, independent and objective.

Our United Kingdom subsidiary companies are directly regulated in the United Kingdom and are required to be effectively supervised in the United Kingdom. The Discovery Holdings Europe Limited Remuneration Committee under the chairmanship of Sir Andrew Foster, oversees the remuneration of these subsidiaries. RemCo fulfills a high-level oversight role.

REMUNERATION OUTCOMES

RemCo approved bonus payments of R366.6 million for the Directors' and Management incentive schemes, including the individual and profit pool portions. This represents a 33% increase in bonus payments over FY2017. This increase is due to the profit pool paying out at 98% of target in FY2018, versus only 69% of target in FY2017 due to performance conditions. In addition, the overall headcount of participants in the short-term incentive schemes increased as indicated on page 107 of the implementation report.

We are confident that the changes made to the policy as well as further proposed changes are necessary in recognising our people as essential to the continued success of our Shared-Value Insurance model. As we continue to expand globally, resulting in further increased requirements from our employees, it is critical to ensure innovation in our human resources management and remuneration philosophy.

We will continue to work towards ensuring that our remuneration philosophy aligns to our business strategy and shareholder returns. The application of the remuneration policy over the past year was in alignment with the stated objectives.

We invite you to give us your views, comments and contributions on our policy and its implementation.
We appreciate the input we received during the year, that helped us to align our policy with the interests of all our stakeholders.

SE DE BRUYN SEBOTSA
Chairperson: Remuneration Committee

2 REMUNERATION POLICY

REMUNERATION PHILOSOPHY

At Discovery, we believe that great people are the foundation of our success. We offer an environment that provides challenging and meaningful work, where our people are liberated to grow and take advantage of opportunities. It is through liberating the best in our people that we will be able to achieve our ambition of being the best insurance organisation in the world. We are committed to providing total remuneration packages that:

- attract, retain and motivate **high-calibre employees;**
- **encourage performance** and appropriately **reward employees** who meet and exceed business objectives;
- align the **financial wellbeing** of employees with the economic interest of shareholders;
- provide an environment that encourages **innovative thinking and extraordinary performance;**
- bring **consistency, transparency and equity** to pay through our fair and responsible pay principles, which increase trust and employee engagement; and
- foster Discovery's **owner-manager culture**.

We **balance a flexible approach** that recognises differences in individual performance and contribution to the Group, **with a consistent framework** that ensures fair and responsible pay principles.

REMUNERATION PRINCIPLES

- To succeed, we must have the right people in the right positions, and strive to offer pay packages that are **competitive in the market.**
- **Pay for performance** is at the heart of our remuneration philosophy and we encourage all employees to set and achieve ambitious goals which are aligned with the objectives of the Group. Exceptional performance is recognised and rewarded.
- **We believe in pay that is right and fair** and we conduct regular salary surveys both internally and externally to ensure fairness and consistency across the business.
- We recognise that **remuneration is not the only reason** why our employees join and stay at Discovery, but it is of significant concern if it is not right or equitable.
- We are a **non-discriminatory** organisation and all remuneration policies and practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin.
- We employ a **total cost to company** approach to remuneration.
- Our **short-term incentive schemes** encourage, recognise and reward performance and are based on rigorous objective setting and measurement, while allowing sufficient flexibility to respond to different business needs.
- Our **long-term incentive schemes** create a sense of ownership in the company and specific schemes are designed for start-ups to encourage an entrepreneurial mind-set and retention.
- Our remuneration policy **empowers managers** to make educated and defensible pay decisions.
- Remuneration policies and practices are governed by the **Remuneration Committee**, a sub-committee of the Board, with support from the **Internal Remuneration Committe**e, an executive management body with delegated responsibilities for remuneration governance.

REMUNERATION STRUCTURE

We adopt a total rewards approach, which encompasses both financial and non-financial elements of reward. The different elements of reward are summarised below:

Total rewards

	Guaranteed pay	Variable pay			Non-financial
	Cost to company	**Monthly performance-based salary**	**Short-term incentive scheme**	**Long-term incentive plans**	**Employee experience**
DESCRIPTION	▪ Basic salary ▪ Compulsory benefits (retirement and medical) and optional benefits (gap cover)	▪ Productivity and sales-based performance pay for operations and sales areas	▪ Quarterly, bi-annual or annual incentive schemes measured against agreed targets which may be at individual, team and business unit level	▪ Performance-linked Phantom Share Scheme ▪ Business unit-specific long-term incentive schemes	▪ Challenging and meaningful work ▪ Development and training ▪ Discovery culture and environment ▪ Opportunity to work with great people ▪ Career opportunities ▪ Recognition
OBJECTIVE	▪ To attract and retain talent through competitive base pay and life stage relevant benefits	▪ Align individual performance to company goals and continuously drive improvement	▪ To reward employees for superior performance over the financial year	▪ To align the interests of management and shareholders over the long term	▪ To create a work experience that positions Discovery as a preferred employer
ELIGIBILITY	▪ All	▪ Generally, employees up to team leader level, as well as some management and executive level employees in sales environments	▪ All	▪ Management and executive level employees	▪ All

Remuneration elements

Our financial rewards include four remuneration elements, although not all employees participate in all of the elements:

Guaranteed monthly salary	Monthly performance-based pay	Short-term incentive (within one year)	Long-term incentive (over two to five years, usually applicable only to Deputy General Manager level and above, and selected Manager and Divisional Manager level employees

Guaranteed monthly salary

Our **total cost to company** approach provides employees with flexibility and choice when it comes to compulsory benefits. All permanent non-sales employees, irrespective of level, receive a guaranteed component of remuneration, consisting of:

- A basic salary
- Compulsory benefits (medical aid, provident and pension funds, group life cover)

Employees select:

- The Discovery Health Medical Scheme plan that best suits them (Discovery membership is compulsory for all employees unless they are a dependant on their spouse's scheme).
- Their contribution level to the provident fund, ranging from 7.5% to 20.0% of guaranteed package or base pay.
- The structure of their provident fund portfolio, with a choice of conservative, moderate and aggressive funds.

The compulsory contribution to the pension fund is set at 5% of an employee's salary.

Employees who work in sales environments typically receive a variable monthly remuneration linked directly to their sales productivity, relative to targets. The expected monthly salary or "deemed salary" is used as the basis to calculate benefits.

We target the market median guaranteed pay level for each role. However, guaranteed pay can be:

- above the median to attract and retain top talent, particularly in scarce and critical skills areas; or
- below the median, in rare instances, for people who display high potential but are new to their role and still need to grow fully into the role.

We use independent providers to ensure we pay employees competitively. Salary benchmarking against other financial services companies are completed at least annually to keep track of market movements. These reviews take factors such as company size (revenue, profit, number of employees) and availability of skills into account.

As many of our roles at Discovery are unique, the market data is used to assist us in making remuneration decisions, but it is not the only reason for our remuneration structures. We do not differentiate pay on arbitrary grounds and strive to ensure that our employment processes do not result in unfair pay differentials.

Annual salary review process

The annual salary review process provides an opportunity to adjust salaries in line with the market and takes place between April and June each year, with increases effective from 1 July. RemCo determines the overall percentage increase to the salary bill while considering benchmarking to understand market trends, particularly for scarce and critical skills, changes to the national cost of living, and business performance and affordability. Performance is primarily rewarded through the incentive structures, not through the salary increase process. Typically, an employee has to be employed for a minimum of three months to be part of the review process, and any increase may be moderated for length of service and time in a role.

Interim increases may be awarded during the year at the discretion of senior management under the following circumstances:

- Successful internal recruitment into a higher paying role.
- Achieving a higher qualification, for certain skills.
- Promotion to a higher level.

Monthly performance-based pay

Pay for performance is at the heart of our remuneration philosophy and as a result, most permanent employees also have an opportunity to earn performance-based pay.

We offer competitive guaranteed rewards (at the market median), with opportunities in many roles to earn additional variable pay-for-performance incentives, that lead to above market median total rewards for top performers.

In many of the operational areas of the business where performance is highly measurable, monthly pay is made up of:

- A guaranteed monthly salary
- Performance-based pay ("on-par")

The performance element ensures alignment between company goals and individual performance, and allows top performers to significantly enhance their earnings. Targets are reviewed and adjusted as required and at the discretion of management to drive continuous improvement.

Short-term incentive schemes (STIs)

STIs encourage and reward performance at every level. Within an overall framework, different business units have incentive schemes based on business priorities, and therefore scheme structures (payout percentages, pay periods and calculations) can vary.

The sales team participates in production-related incentives applicable to their roles. Generally, short-term schemes span three to 12 months. To receive payment, an employee must have been employed for a minimum of three months in the period, and must still be employed at the time of the payment.

All schemes are performance-based and reward delivery against pre-agreed stretch targets which may be at an individual, team or business unit level. RemCo or management determines both the targets and the final payout amounts for all incentive schemes, within scheme guidelines. Final approval is at the discretion of RemCo.

Employee incentive schemes

- At staff and team leader levels, payments may be made quarterly, bi-annually or annually, dependent on the scheme. Measures are set by management and aligned with business goals and continuous improvement.

Management incentive schemes

- At manager and divisional manager level, employees participate in a bi-annual management incentive scheme which takes performance against both personal and business objectives into account.
- The short-term incentive scheme for Deputy General Managers, General Managers, sub-Directors and Executive Directors comprises two elements, namely the individual management incentive portion and the profit pool portion.
  - The individual management incentive portion takes performance against personal and business objectives, as contained in each individual's scorecard, into account.
  - The profit pool portion awards management for the achievement of profit pool growth above a pre-determined target.
  - The on-target split, applied to each employee's cost to company salary, between the individual management incentive and profit pool components for different levels of management, is:

	% of total cost to company	
Employee category	Individual management incentive portion	Profit pool portion
Executive Director	50%	50%
Sub-Directors*	35%	50%
General Manager	25%	15% – 25%
Deputy General Manager	20% – 30%	10%
Manager/Divisional Manager	15% – 30%	–

* *Sub-Director: a General Manager who sits on one of the Discovery Boards, but is not an Executive Director.*

Individual management incentive portion

Measures are linked to business unit performance and individual roles. For business unit performance, measures will generally include the following:

Standard business objective	Measure	Weights
Insurgency and market leadership in new business	• New business annualised premium income (API)	10% – 20%
Products that meet complex consumer needs and are sustainable in the long term	• Innovation	10% – 15%
Superior actuarial dynamics and engagement	• Loss ratios • Lapse rates • Value of new business (VNB) • Engagement in Vitality	10% – 30%
Exceptional service ecosystem	• Broker or franchise perception scores • Member-based research scores	10% – 20%
Financial excellence and superior returns	• Growth in normalised profit from operations	10% – 35%
Diverse workforce	• Employment equity	15%

Each measure has a weighting which is applied to the score. The sum of the weighted scores results in the overall modifier that is applied to the cost to company salary and multiplied by the on-target percentage for the individual management incentive portion. However, if a score of below 50% is achieved for any individual measure, then the weighted outcome for the indicator will be zero.

Each individual measure has a maximum score of 150%, except for profit and new business, which have a maximum of 200%. Accordingly, the maximum modifier may exceed 100%, but would never reach 200%.

Profit pool portion

The Discovery Group Profit Pool Scheme shares a portion of profits above an agreed threshold growth level with executive management. This ensures ongoing alignment and focus on operating profit across the Group. The scheme is based on a single measure – growth in normalised operating profit, excluding start-ups – and runs on an annual basis based on audited financial results. The following approach is used to determine the profit pool portion of each member of executive management's short-term incentive:

STEP 1

The value of the required pool is determined at the beginning of the financial year, based on the number of participants, their employee level and their salaries. The pool is determined so that, at target operating profit growth as agreed by the Board, the actual value of the pool is equal to the required value. Target operating profit growth is considered to be commercially sensitive; however, retrospective disclosure will be made in the implementation report for the previous year's target.

STEP 2

The pool starts to accumulate once operating profit growth exceeds an agreed hurdle value (for 2018, this was set at CPI x 1.5). Below this threshold, the value of the pool is zero and no payment is made. From this point, the payout curve is linearly related to the operating profit growth.

Normalised operating profit	Payout	Pool as % of operating profit
Below hurdle	0%	N/A
From hurdle to target operating profit growth	0% – 100%, linearly	0% – 1.4%
Above target operating growth	No formulaic cap, but subject to RemCo discretion and reviewed as % of operating profit	

STEP 3

The total value of the pool is determined at year end, based on audited financial results. Individuals participate in the final pool in the proportion of their individual on-target profit pool as a percentage of the total on-target profit pool.

$$\frac{\text{Individual CTC x on-target \%}}{\text{Total on-target pool}} \times \text{Actual pool}$$

Payments are split, and made in March and September.

The March payment is a draw down, and the balance is paid in September, based on audited results.

Long-term incentive plans

LTIPs encourage alignment with long-term shareholder interests and are used to drive longer-term performance, retain key people and create opportunities for individuals to share in the success of the Group. These schemes are restricted to executive managers, with awards offered in certain circumstances to individuals at lower levels performing critical roles, and aligning their interests with the longer-term strategic goals of the Group.

Phantom Share Scheme

Discovery currently operates a phantom share and option scheme referenced to the Discovery share price performance for the purposes of calculating incentives payable. RemCo approves the total allocation value annually and the individual Director allocations. Allocations below Director level vary by role, level and individual performance. Guidelines are provided by role and level, and each business unit CEO recommends the participants and the associated allocations. RemCo reviews and approves the participants, the allocations as well as the performance measures set for each allocation to vest. Payments are made in cash on the second, third, fourth and fifth anniversaries of allocation. Performance is measured from the year of the award on a compound basis for each vesting period.

Historically, the compound annual growth rate (CAGR) in normalised HEPS had to exceed a target level for payment to be made in any year. From 2018, RemCo approved a vesting condition linked to the Group's organic growth methodology described in the background statement.
This new performance assessment applies to all new awards from 2018 as well as to unvested portions of the 2015, 2016 and 2017 awards, with transitional arrangement agreed by RemCo.

Phantom Share Scheme performance conditions

The Phantom Share Scheme performance conditions have been aligned to the organic growth methodology:

Performance measure	Weighting	CAGR over measurement period (two, three, four and five years)		
		Minimum	On target	Maximum
Established businesses operating profit	70%	CPI	CPI + 5%	CPI + 7%
Emerging businesses operating profit	12.5%	CPI + 5%	CPI + 20%	CPI + 25%
New business investment and development	7.5%	Majority of objectives under-performed	All objectives materially met	All objectives significantly exceeded
Return on equity (ROE)	10%	Risk-free rate	Risk-free rate + 10%	Risk-free rate + 13%
	100%			

For all new awards from 2018, overall vesting is capped at 100%. Where the performance criteria are not fully met, vesting of the percentage not achieved will lapse.

Phantom share awards before 2018

For unvested portions of previous awards, the transitional arrangement is that the overarching performance condition of normalised HEPS growth of CPI + 1.5% remains in place. The normalised HEPS growth of CPI + 1.5% is a stretch target given that it reflects the dilution caused by the R5 billion rights issue in April 2015 and the fact that some of the proceeds were deployed in new initiatives that only become profitable over time. This is distinctive of an organically growing company.

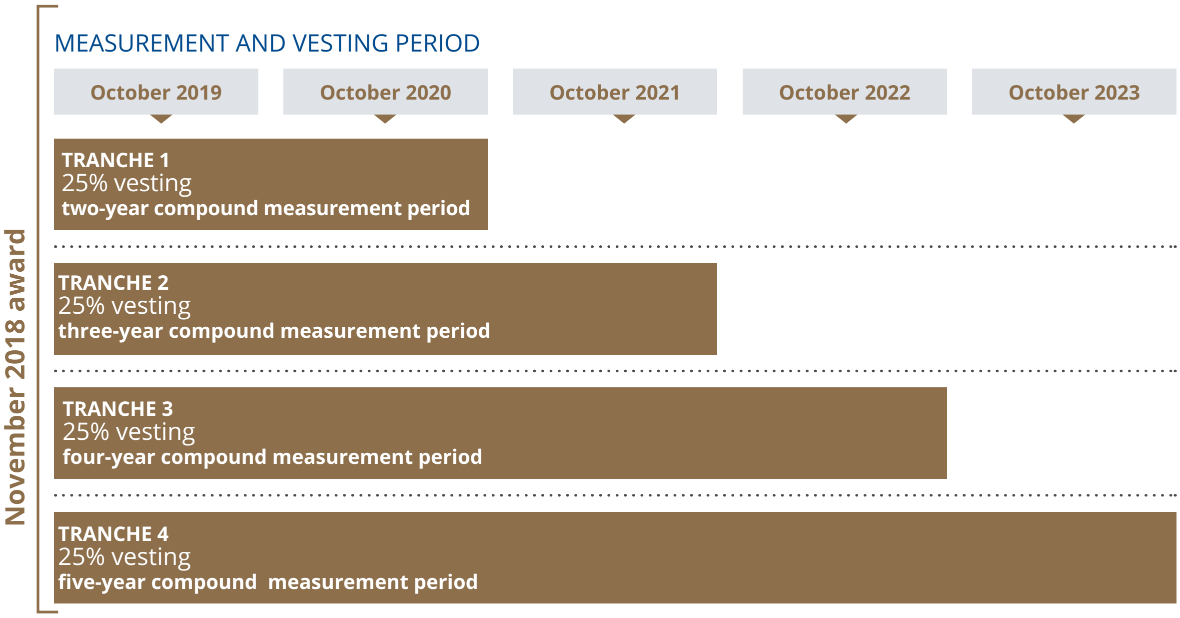
If the overarching HEPS growth measure is met on a compound basis over the vesting period, the growth methodology measures will not be relevant for vesting.

Phantom Share Scheme vesting

A portion of the phantom share awards to Deputy General Managers, Divisional Managers and Managers is not subject to performance, but largely aimed at retention and remaining aligned with the market from a total pay perspective. Awards to Directors and sub-Directors are fully subjected to the performance measures for vesting.

Employee level	Phantom shares vesting proportion	
	Retention awards	Performance awards
Executive Directors	–	100%
Sub-Directors	–	100%
General Managers	60%	40%
Deputy General Managers	85%	15%
Managers/Divisional Managers	85%	15%

Vesting is measured over a five-year period as illustrated below:



International businesses' Phantom Share Schemes

Vitality UK and Vitality Group operate Phantom Share Schemes with vesting criteria linked to the performance of those businesses.

- Vitality Group Cash-Settled Share Plan subjects a portion of the phantom share award to vesting based on valuation of the Vitality Group instead of applying the Discovery share price. The plan vests over the same period as the Phantom Share Scheme. Recipients are senior executives within Vitality Group.
- The VitalityHealth and VitalityLife Long-Term Incentive Programme vests in thirds, starting from the second to the fourth anniversaries from date of award. Vesting is subject to attainment of embedded value (EV) and profit targets, measured for each tranche over the vesting period.

Targeted long-term incentive schemes

From time to time, RemCo may decide to implement a specific long-term incentive scheme to drive a particular business result. For example, this may be associated with the start-up of a new venture or the delivery of strategic stretch business targets.

Participation is at the discretion of RemCo and is limited to key influencers. Payout under start-up schemes is typically linked to value creation and profitability.

All schemes are non-contractual and discretionary, and may be changed by RemCo. We have only disclosed schemes under which awards will be made in the next financial year. However, there are outstanding awards in terms of a number of previously operated schemes (refer to pages 112 to 114 in the Implementation Report).

ILLUSTRATION OF THE EARNING POTENTIAL FOR EXECUTIVE DIRECTORS FOR MINIMUM, ON-TARGET AND MAXIMUM PERFORMANCE OUTCOMES

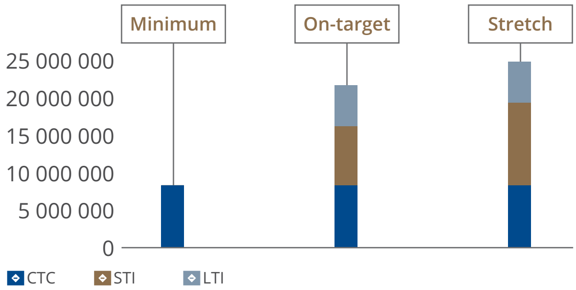
The potential FY2019 remuneration outcomes for Executive Directors and Prescribed Officers at minimum, on-target and stretch remuneration levels are disclosed below. These are hypothetical values, and we have made the following assumptions for the illustrations:

1. Minimum remuneration level assumes that the performance conditions for minimum payment of the management incentive scheme, profit pool and Phantom Share Scheme have not been met and that only the fixed remuneration is payable. The 1 July 2018 salaries have been used for the illustrations.
2. The on-target remuneration level assumes that in addition to the minimum assumptions, the individual portion of the management incentive pays at 100%, the profit pool portion pays at 90% (based on historic assessment) and that all vesting tranches for deferred awards do so at 100%.
3. The stretch remuneration level assumes that, in addition to the on-target assumptions (including 100% vesting for deferred awards), the individual portion of the management incentive pays at 140% and the profit pool pays out at 125%, based on historical assessment.

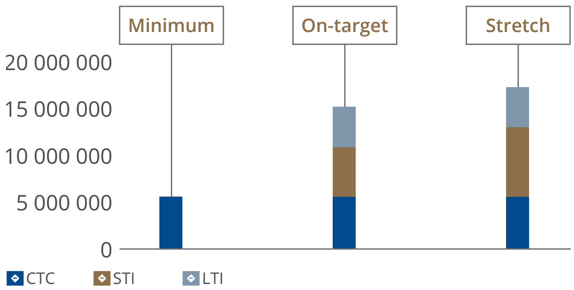
The scenarios are illustrated below for the current Executive Directors and Prescribed Officers on the basis of cash payable during the period. LTIP awards are valued at the 30 June 2018 five-day volume-weighted average price (VWAP) + 7%:

South Africa

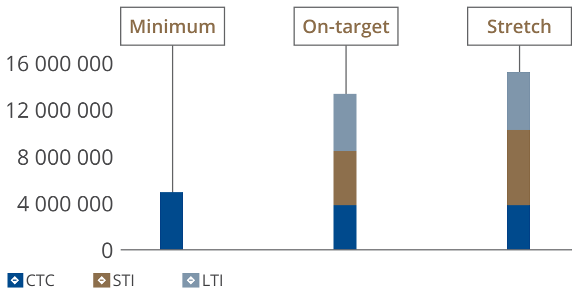
Adrian Gore – ZAR



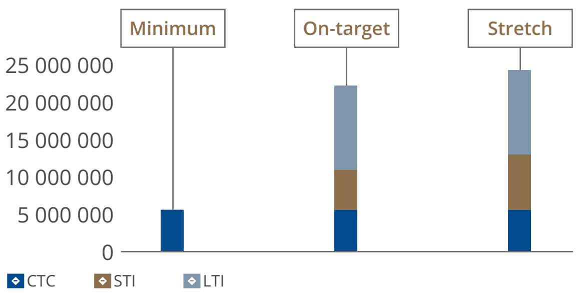
Barry Swartzberg – ZAR



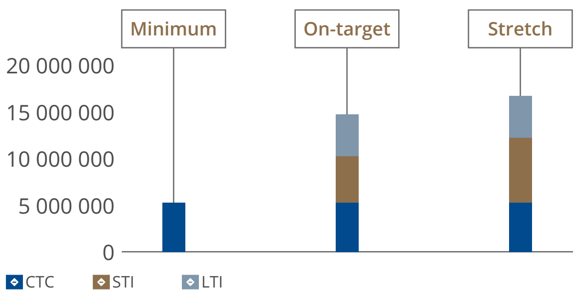
Ayanda Ntsaluba – ZAR



Hylton Kallner – ZAR

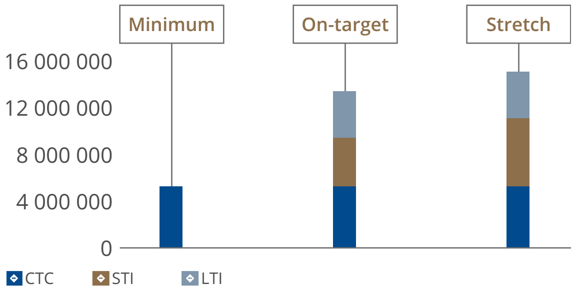


Deon Viljoen – ZAR

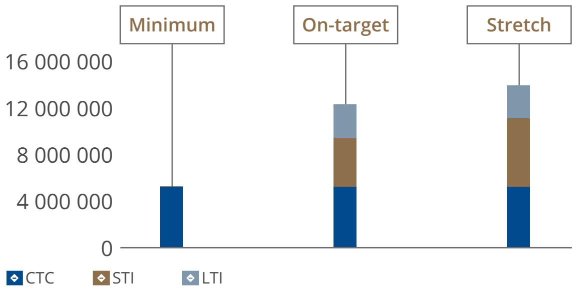


South Africa

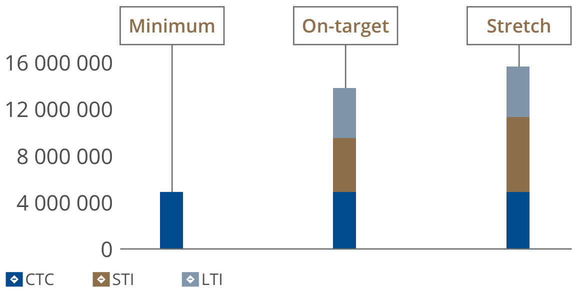
Kenny Rabson – ZAR



Jonathan Broomberg – ZAR

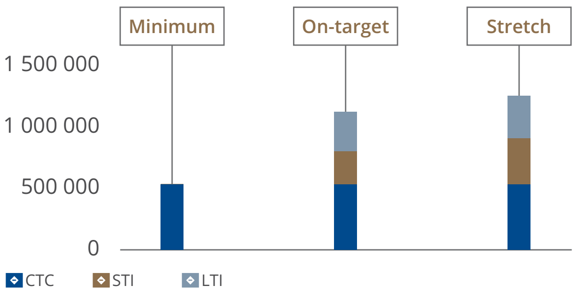


John Robertson – ZAR



United States

Alan Pollard – US$



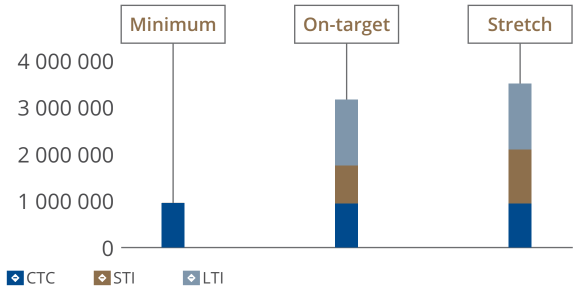
CONTRACT TERMS FOR EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

All Executive Directors are employed on employment contracts that can be cancelled by between one month and three months' notice by either the Executive or the company.

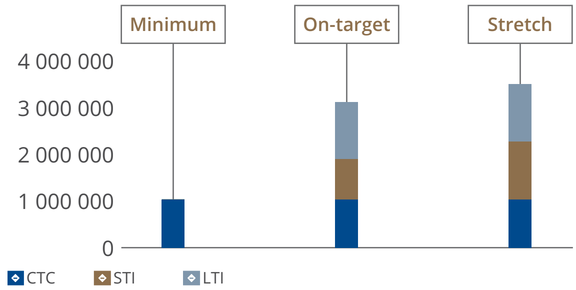
On voluntary termination of employment, all unvested awards are forfeited.

United Kingdom

Neville Koopowitz – GBP



Herschel Mayers – GBP



PAYMENTS ON TERMINATION OF OFFICE

Our policy provides for no ex-gratia payments on termination of office of Executive Directors and Prescribed Officers other than payments that are due under existing short- and long-term schemes.

GUARANTEED BONUSES, SIGN-ON, BUY-OUTS, RETENTION AND RESTRAINT OF TRADE PAYMENTS

Such payments are made when deemed necessary to attract and retain critical employees. These are approved by RemCo and disclosed appropriately.

FAIR AND RESPONSIBLE PAY

RemCo is interested in ensuring that remuneration is externally competitive and internally fair and free of any prejudice by race, gender or any other basis. Management processes, including job grading, an annual salary benchmarking exercise and an annual income differential analysis exercise ensure that remuneration is primarily determined by market relatedness for the role size, and administered internally on an equitable basis.

RemCo has revised its workplan to include a review of the income differential analysis. RemCo also considers the inflationary pressures that burden the low-income earners. From 2014, RemCo established a minimum pay threshold, below which employees are awarded annual salary increases substantively higher than inflation.

In 2018, this threshold was set at a cost to company remuneration of R138 000 per annum, and employees earning below this threshold were awarded increases of no less than 10%. RemCo also reviews the minimum cost to company remuneration level annually.

To ensure that pay is administered responsibly, RemCo has mandated a committee of executive management to assist RemCo in its role, and with day-to-day management of remuneration. This committee holds itself to the same standards as RemCo and reports to RemCo at every meeting.

Remuneration awards for Executive Directors and Prescribed Officers are approved by RemCo. RemCo tries to ensure that performance-linked pay is directly attributable to the efforts of management, and in reviewing incentive designs, RemCo strives to avoid remunerating for a "rising tide" effect. When reviewing proposals for new schemes or amendments to existing schemes, RemCo ensures that incentive payouts are capped, to avoid management benefiting from any windfall gains.

RemCo has mandated that management investigates suitable tools for the tracking, monitoring and appropriate reporting of the fairness of our pay practices. Discovery is currently undertaking this investigation.

ADVISORY VOTE ON REMUNERATION POLICY

The Board will table the remuneration policy for a non-binding advisory vote by shareholders at the AGM on a yearly basis.

In the event that the remuneration policy is voted against by 25% or more of the votes exercised, Discovery, in its voting results announcement following the AGM, will invite dissenting shareholders to engage with us.

NON-EXECUTIVE DIRECTORS

Non-executive Directors receive a combination of fixed and meeting attendance fees for their participation on the Board and Board Committees. Non-executive Directors do not receive annual incentive awards. RemCo reviews the fees paid to Non-executive Directors annually, taking into consideration individuals' responsibilities and Board Committee membership.

The Board and RemCo Chairpersons are not present when their remuneration is reviewed.

From time to time, the fees are benchmarked to other local and international financial services companies and companies with similar market capitalisations to ensure the fees remain competitive.

Recommendations are made to the Board for consideration and taken to the AGM for shareholder approval.

The Board member fee structure has two components:

- A retainer
- A Board or Board Committee meeting attendance fee

The Chairperson of the Board receives an all-inclusive retainer and does not receive any other fees or a retainer for attendance at Board or Committee meetings.

Non-executive Director fees are benchmarked every second year against a peer group. The last peer group review included Alexander Forbes, Barclays Africa Group (Absa), FirstRand, Liberty, MMI, Nedbank, Sanlam and Standard Bank.

There is no limitation on the number of times a Non-executive Director may stand for re-election. Proposals for re-election are based on individual performance and contribution, which is reviewed by the Board.

TOTAL INCENTIVE OUTCOMES

Fixed remuneration increases

We award salary increases around CPI and have established a cost-to-company threshold, below which increases awarded are notably higher than CPI. The threshold is currently R138 000 per annum and is reviewed annually. Employees below the threshold (as reviewed annually) have received increases of around 10% per annum for the past few years.

%	2017	2018
CPI (July headline)	4.6	**5.1**
Executive Directors	6	**5.5**
Management and Executives	6	**5.5**
Employees	6	**5.5**
Minimum salary	10	**10**

Summary of 2018 total incentive outcomes

	2017	2018	YoY change %
Director incentive (SA)	12 698 301	**15 854 686**	25
Participants	7	**7[1]**	
Management incentives	213 694 537	**265 575 285**	24
Participants	996	**1 134**	14
Profit pool	48 616 429	**85 184 359**	75
Participants	183	**203**	11
Annual bonus pool	275 009 267	**366 614 330**	33[2]

Notes

1 *Reduced to six following Richard Farber's resignation as an Executive Director in March 2018.*

2 *The growth in the annual bonus pool is impacted by the fact that the profit pool paid out at 98% of target in FY2018, versus 69% of target in FY2017. Growth in the management incentive portion was also impacted by management headcount growth, as well as an increase in the on-target percentage of some senior managers, for alignment to the market.*

FY2018 EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

The remuneration earned by the Executive Directors and Prescribed Officers during the year is shown below in single figure format. It reflects earnings received and due to each, based on performance over the period under review, in accordance with the guidance in King IV™. All remuneration components are summed into a single total figure, which is representative of the quantum of remuneration most closely linked to performance during the year. Actual remuneration paid to Executive Directors and Prescribed Officers during FY2018 is reflected in the Directorate from page 148 in the annual financial statements.

Specific notes follow after each table. The following generic notes apply to the single figure tables below.

- Other benefits include medical aid or insurance contributions and premiums, travel and other allowances.
- The performance bonus is made up of individual and profit pool portions of the STI Scheme, as well as payments from an outperformance scheme for the Directors in the United Kingdom.
- The LTIP is made up of the vesting 25% tranches of the previous years' phantom awards, using a year-end five-day VWAP, and the Insure LTIP Scheme, where applicable. Refer to the annual financial statements from page 133. Payment of vesting phantom share awards happens in October, using a September five-day VWAP. The FY2018 phantom share award for Executive Directors includes the 2017 vesting, which was delayed as the vesting hurdle was not met in the previous year. The delayed tranche was re-tested for vesting in FY2018 and the hurdle was subsequently met on a compound basis over the total measurement period.

FY2018 EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' SINGLE FIGURE REMUNERATION

	Base salary	Retirement fund	Other benefits	Performance bonus	LTIP reflected	Total
SA Executive Directors (ZAR)						
Adrian Gore	6 599 908	989 937	312 780	7 775 267	4 137 244	**19 815 137**
Deon Viljoen	4 276 751	652 173	71 400	5 189 623	*	**10 189 949**
Hylton Kallner	4 913 396	245 653	141 276	6 401 534	**17 566 662	**29 268 522**
Ayanda Ntsaluba	4 126 865	309 490	222 482	4 977 268	3 369 536	**13 005 642**
John Robertson	3 759 625	770 474	93 071	4 534 662	3 358 754	**12 516 588**
Barry Swartzberg	4 906 224	252 381	141 720	5 885 250	#7 484 879	**18 670 456**
Richard Farber†	4 351 440	413 385	–	870 305	*	**5 635 115**
Prescribed Officers (ZAR)						
Jonathan Broomberg	4 614 327	230 700	137 298	4 776 265	2 363 953	**12 122 544**
Kenny Rabson	4 404 152	220 191	357 982	4 599 255	4 136 244	**13 717 825**
Penny Moumakwa∞	1 902 808	204 441	57 112	1 470 051	*	**3 634 413**
UK Executive Directors (GBP)						
Neville Koopowitz	883 325	10 000	24 179	1 015 221	437 960	**2 370 685**
Herschel Mayers	886 437	95 318	21 773	828 724	329 467	**2 161 719**
US Executive Director (US$)						
Alan Pollard	441 515	17 691	20 988	175 744	#327 824	**983 762**

Notes:

* *No vesting awards for the period for Deon Viljoen and awards for Richard Farber and Penny Moumakwa forfeited upon resignation as Executive Director and Prescribed Officer, respectively.*

** *Includes payment from Insure LTIP Scheme. This is a three-year scheme which ran from 2015 to 2017 and pays out a percentage of net value created to the management team, subject to profitability hurdles. Two thirds of individual payments are deferred and indexed to the Discovery share price. The first payment was delayed to 2017 and final payment will be made in 2021.*

\# *Includes portion of the Vitality Group Cash-Settled Share Plan. The Plan vests over the same period as the Phantom Share Scheme, but because the awards do not have a performance condition, the full value is shown on award.*

† *Executive Director until March 2018, and received a cost of living adjustment on relocation to Australia. Converted from Australian dollar.*

∞ *Prescribed Officer until February 2018.*

To enable comparison with the previous year's earnings, we have restated last year's reported earnings in single figure format below:

	Base salary	Retirement fund	Other benefits	Performance bonus	LTIP reflected	Total
SA Executive Directors (ZAR)						
Adrian Gore	6 233 974	935 012	286 572	5 344 626	2 382 964	**15 183 150**
Deon Viljoen*	713 207	108 695	11 430	**10 000 000	#10 000 000	**20 833 333**
Hylton Kallner	4 642 446	232 094	126 018	4 996 176	3 984 295	**13 981 030**
Ayanda Ntsaluba	3 897 820	292 294	205 266	3 678 108	1 933 038	**10 006 528**
John Robertson	3 550 085	726 862	84 786	3 061 189	1 933 038	**9 355 961**
Barry Swartzberg	4 633 673	238 095	128 790	4 309 592	899 868	**10 210 019**
Richard Farber†	4 740 675	344 665	72 310	3 979 263	1 933 038	**11 069 953**
Prescribed Officers (ZAR)						
Jonathan Broomberg	4 352 263	217 585	130 710	3 026 826	1 748 539	**9 475 924**
Kenny Rabson	4 173 140	208 629	318 789	2 914 496	1 748 539	**9 363 594**
Penny Moumakwa	2 911 181	291 062	61 472	2 006 323	1 748 539	**7 018 577**
UK Executive Directors (GBP)						
Neville Koopowitz	863 662	10 000	23 763	714 111	1 052 200	**2 663 736**
Herschel Mayers	861 658	93 888	†452 485	750 061	944 918	**3 103 011**
UK Executive Directors (US$)						
Alan Pollard	432 856	10 600	18 744	228 549	47 444	**738 194**

Notes:

* *Executive Director for two months during the disclosure period.*

** *Sign-on bonus with two-year clawback, awarded in lieu of forfeitable short-term and vesting long-term awards with previous employer.*

\# *Buy-out awards with no performance conditions. The full value is shown on award, but vesting will occur in four equal tranches, starting two years from date of award, through to five years from date of award, in line with the Phantom Share Scheme.*

† *Includes relocation assistance package.*

FY2018 REMUNERATION OUTCOMES FOR EXECUTIVE DIRECTORS AND PRESCRIBED OFFICERS

The explanation of the FY2018 total single figure remuneration outcomes for current Executive Directors and Prescribed Officers is provided below, with general comments on the cost-to-company cost increase, the profit pool payout and the phantom share payout. Specific context is provided for the individual portion of the short-term incentive for the Group Chief Executive and the Group Financial Director. A summary of performance measures for the individual portion of the short-term incentive for other executive directors is provided on page 101.

General commentary

CTC

CTC increases are effective 1 July and is a total amount inclusive of the employee's contribution to retirement funding and other benefits. RemCo approved 5.5% increases in CTC for the Executive Directors and Prescribed Officers for financial year FY2018.

For international Executive Directors, inflation-related increases were awarded.

SHORT-TERM INCENTIVES

The Executive Directors and Prescribed Officers participate in an annual incentive scheme that consists of two portions:

- The individual management incentive portion; and
- The profit pool portion.

The total award is paid fully in cash.

Profit pool portion

The Group achieved a normalised operating profit growth (excluding new initiatives) of **18.2%** against a target of **18.5%**, resulting in a profit pool payout of **98.5%**. However, for FY2018 there was a net reduction in participants in the pool by year end, hence an adjustment factor of 113% was applied to all participants at year end. This impact is visible in the proportion of the profit pool that paid out for the year.

Individual management incentive portion

The individual management incentive portion is based on a balanced scorecard of individual performance metrics.

The individual portions for the South African Executive Directors paid out from 83% to 109% of on-target, with some of the notable achievements being:

1. Excellent operating profit and new business growth from Discovery Health as well as continued value creation for members. Discovery Health launched Discovery for Business with other Discovery business units. This is an integrated corporate offering, including PrimaryCare and Discovery HealthyCompany.
2. Robust performance by Discovery Life, under tough market conditions. Discovery Life enhanced the impact of the Shared-Value Insurance model through product innovation. The Global Education Protector was recognised as one of the most innovative life insurance products globally (EFMA Accenture Global Innovation in Insurance Awards, Paris 2018), while the new Purple Life plan resulted in a 23% increase in policies with life cover over R10 million.
3. Discovery Invest grew assets under administration by 18% and focused on refining the Shared-Value Insurance model in the context of long-term savings. The business saw continued evidence of positive behaviour change as a result of the Shared-Value Insurance model through boosts that result in members saving for longer, in greater quantities, getting healthier, and withdrawing less. The business extended the model by launching an Umbrella Fund together with a revised Group Risk PayBack product, under the banner of a new Discovery Employee Benefits solution.
4. Discovery Insure turned profitable and continued to improve the quality of the in-force book. Based on the proven efficacy of the Shared-Value Insurance model, Discovery Insure entered the commercial insurance market with a compelling product.
5. Vitality Group transitioned to profitability and the Vitality One technology infrastructure went live over the period, offering a globally unified systems architecture that all markets can access. The Shared-Value Insurance model launched to excellent reception in Japan, in partnership with Sumitomo Life.
6. The South African operations were successfully relocated to the new head office at 1 Discovery Place, which has a five-star green rating.
7. Effective participation in key business initiatives advanced the Group's social compact.

SHORT-TERM INCENTIVES *continued*

Individual management incentive portion *continued*

8. The individual portions paid out from 108.7% to 125.5% of on-target. The combined United Kingdom businesses grew in terms of new business, operating profit and total lives, and VitalityInvest was launched. Management action in VitalityHealth resulted in exceptional Vitality engagement and strong positive selective lapsation. VitalityLife re-engineered itself for a low interest rate environment and continued to innovate. Product development was supported by growth in the distribution footprint, which has positioned the business for continued sales growth in the future.

The incentive pay out for the United States Executive Director paid out at 77% of on-target based on the following consideration.

9. Vitality USA saw high and sustained engagement among users and is making progress in extending its offering to clients beyond employers with its Apple Watch and Active Rewards programmes.

LONG-TERM INCENTIVE

The portions that vested based on performance measurements up to FY2018 included awards from 2013, 2014, 2015 and 2016. All vesting tranches were tested against the HEPS hurdle of CPI + 1.5% and all exceeded the hurdle rates, resulting in 100% vesting for all participants.

Adrian Gore

Group Chief Executive

	2017	2018	2018 pay mix	On-target pay mix
CTC	7 455 559	**7 902 626**	**40%**	**38%**
Individual incentive	2 721 075	**3 315 015**	**17%**	**20%**
Profit pool	2 623 552	**4 460 253**	**23%**	**17%**
LTI	2 382 964	**4 137 244**	**21%**	**25%**
Total remuneration	15 183 150	**19 815 137**	**100%**	**100%**

VARIABLE REMUNERATION

Adrian's scorecard for his individual incentive included the following measures:

- The Discovery Bank value proposition
- The launch of Discovery Bank
- Progress in the Global Vitality Network
- Specified profit growth target
- Creating funding headroom on the projected financial leverage ratio (FLR)
- Profitable emerging businesses
- The average score of other Directors

Financial performance for the period was strong across all metrics.

At the core of the 2018 Ambition are Discovery's growth engine, capital philosophy and cash framework. These have proved to be robust mechanisms for managing the Group's growth and investment, as demonstrated over the period.

In addition, the 2018 Ambition has served as a powerful strategic framework to guide the mandate and priorities of Discovery's businesses, which all performed excellently over the financial year, and are well positioned for continued growth.

However, delays in certain strategic initiatives around emerging and new businesses impacted the Group Chief Executive's individual portion, resulting in a payout at 84% of on-target.

Discovery

Deon Viljoen

Group Financial Director

	2017	2018	2018 pay mix	On-target pay mix
CTC	833 333	5 000 326	49%	36%
Individual incentive	–	2 367 500	23%	18%
Profit pool	–	2 822 123	28%	16%
LTI	10 000 000	–	–	29%
Sign-on	10 000 000	–	–	–
Total remuneration	20 833 333	10 189 949	100%	100%

VARIABLE REMUNERATION

Deon's scorecard for his individual incentive included the following measures:

- Successful execution of the funding plan
- Creating funding headroom on the projected FLR
- Successful transition to the position of Group Financial Director
- Specified profit growth target
- Target operational efficiencies
- Employment equity

Financial performance for the period was strong across all metrics.

Deon successfully established an unsecured R10 billion Domestic Medium-Term Note (DMTN) programme listed on the JSE. In terms of this programme, R1.5 billion JSE Listed Notes were issued in the inaugural issuance on 21 November 2017.

Deon played a key role in the execution and communication of the Group strategy to both internal and external stakeholders. He was also responsible for the establishment of governance structures relating to the IFRS 17 project and has focused efforts across finance on talent development.

Deon's individual portion paid out at 95% of on-target, impacted by below target performance against the employment equity measure in the first half, notwithstanding the good performance against this measure in the second half.

VARIABLE REMUNERATION FOR OTHER EXECUTIVE DIRECTORS

In addition to the profit pool portion, the scorecard for individual incentives included the following measures:

SOUTH AFRICA

Hylton Kallner

- New business targets for South African products
- Specified profit targets for Discovery Life and Vitality
- Target Discovery Life return on capital (ROC) and cash generation
- Positive experience variances in Discovery Life EV
- Develop specified products
- Brand building initiatives and launches
- Employment equity

Ayanda Ntsaluba

- Guide business initiatives that advance the social compact
- Guide regulatory impact and stakeholder engagement
- Advancement of the national policy imperative to realise universal health coverage
- Execution of global expansion initiatives
- Employment equity

John Robertson

- Prepare technology environment for the move to 1 Discovery Place
- Manage move of Sandton-based staff to 1 Discovery Place
- Savings targets related to systems and facilities
- Employment equity

Barry Swartzberg

- Specified profit targets
- Deployment of Vitality One (technology and platform)
- Launch of specified partner market
- Vitality Active launches in new markets
- Employment equity

UNITED STATES

Alan Pollard

- Specified reward partners successfully launched
- Specified products developed
- Target number of new global partners signed

UNITED KINGDOM

Neville Koopowitz

The individual incentive is the business unit score for VitalityHealth. The outperformance scheme includes the following specific measures:

- Target new business, VNB and operating profit
- Target ROC

Herschel Mayers

The individual incentive is the business unit score for VitalityLife. The outperformance scheme includes the following specific measures:

- Target new business and operating profit
- Target ROC
- Target internal rate of return (IRR) for new business
- Target return on EV
- Service excellence based on an external survey

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SHARE INCENTIVE SCHEMES

	2017	2018					
	Opening number on 1 July 2017	Granted during 2018	Forfeited/ lapsed during 2018	Exercised/ settled during 2018	Closing number on 30 June 2018	Cash value received during the year	Closing fair value at 30 June 2018
Name	Number of awards	Number of awards	Number of awards	Number of awards	Number of awards	ZAR	ZAR
Adrian Gore							
Discovery Phantom Share Scheme	75 813	55 788		14 436	117 165	2 044 789	16 823 388
Executive Scheme	16 295			16 295		2 111 852	
Discovery Phantom Options Scheme	91 417			40 737	50 680	2 249 023	2 266 324
Barry Swartzberg							
Discovery Phantom Share Scheme	73 966	7 858		11 170	70 654	1 582 195	10 206 148
Executive Scheme	18 434			18 434		2 388 973	
Discovery Phantom Options Scheme	65 583	15 715		31 797	49 501	1 902 419	2 122 248
Vitality Group Cash-Settled Plan		254 244			254 244		3 270 277
Ayanda Ntsaluba							
Discovery Phantom Share Scheme	68 702	19 732		11 170	77 264	1 582 195	11 133 204
Executive Scheme	22 489			22 489		2 914 547	
Discovery Phantom Options Scheme	65 583	39 465		31 797	73 251	1 902 419	3 046 186
John Robertson							
Discovery Phantom Share Scheme	68 409	32 636		11 170	89 875	1 582 195	12 924 114
Executive Scheme	20 277			20 277		2 627 871	
Discovery Phantom Options Scheme	65 583			31 797	33 786	1 902 419	1 510 894
Richard Farber							
Discovery Phantom Share Scheme	90 641		79 471	11 170		1 582 195	
Executive Scheme	18 434			18 434		2 388 973	
Discovery Phantom Options Scheme	110 047		67 134	42 913		1 977 007	

	2017	2018					
	Opening number on 1 July 2017	Granted during 2018	Forfeited/ lapsed during 2018	Exercised/ settled during 2018	Closing number on 30 June 2018	Cash value received during the year	Closing fair value at 30 June 2018
Name	Number of awards	Number of awards	Number of awards	Number of awards	Number of awards	ZAR	ZAR
Deon Viljoen							
Discovery Phantom Share Scheme	75 785	22 450			98 235		13 955 721
Discovery Phantom Options Scheme		44 899			44 899		1 746 689
Hylton Kallner							
Discovery Phantom Share Scheme	138 571	369 999		21 897	486 673	3 101 639	68 904 604
Executive Scheme	27 651			27 651		3 583 460	
Discovery Phantom Options Scheme	129 943			53 250	76 693	2 841 310	3 825 895
Alan Pollard							
Discovery Phantom Share Scheme	17 773	7 591		3 737	21 627	529 381	3 112 969
Executive Scheme	19 663			19 663		2 548 238	
Discovery Phantom Options Scheme	37 093	15 181		10 627	41 647	635 735	1 810 683
Vitality Group Cash-Settled Plan		245 609			245 609		3 159 207
TVG Stock Plan	1 161 306			418 265	743 041	259 324	328 910
Herschel Mayers							
Discovery Phantom Share Scheme	30 473			11 170	19 303	1 582 195	2 811 909
Executive Scheme	26 360			26 360		3 416 232	
Discovery Phantom Options Scheme	65 583			31 797	33 786	1 902 419	1 510 894
Vitality Phantom Share Scheme	19 493	14 624			34 117		20 447 937
Vitality Phantom Options Scheme	19 978				19 978		12 696 077

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' PARTICIPATION IN THE SHARE INCENTIVE SCHEMES CONTINUED

	2017	2018					
	Opening number on 1 July 2017	Granted during 2018	Forfeited/ lapsed during 2018	Exercised/ settled during 2018	Closing number on 30 June 2018	Cash value received during the year	Closing fair value at 30 June 2018
Name	Number of awards	Number of awards	Number of awards	Number of awards	Number of awards	ZAR	ZAR
Jonathan Broomberg							
Discovery Phantom Share Scheme	44 490	24 620		10 030	59 080	1 420 750	8 494 098
Executive Scheme	20 072			20 072		2 601 327	
Discovery Phantom Options Scheme	58 155			28 592	29 563	1 731 489	1 322 026
Kenny Rabson							
Discovery Phantom Share Scheme	66 722	24 620		10 030	81 312	1 420 750	11 706 606
Executive Scheme	20 789			20 789		2 694 231	
Discovery Phantom Options Scheme	102 619			39 708	62 911	1 806 078	2 240 392
Neville Koopowitz							
Executive Scheme	40 861			40 861		5 295 558	
Vitality Phantom Share Scheme	47 326	14 624		14 585	47 365	7 727 389	28 362 114
Vitality Phantom Options Scheme	19 978				19 978		12 696 077
Penny Moumakwa							
Discovery Phantom Share Scheme	44 490		34 460	10 030		1 420 750	
Executive Scheme	14 983			14 983		1 941 704	
Discovery Phantom Options Scheme	58 155		29 563	28 592		1 731 489	

TERMINATION OF OFFICE PAYMENT

There were no termination of office payments to Executive Directors or Prescribed Officers during the period.

2018 NON-EXECUTIVE DIRECTORS' FEES

Payments to Non-executive Directors for the year ended 30 June 2018 for services rendered are as follows:

R'000	Services as directors	Other benefits[1]	Total
MI Hilkowitz	4 200	–	4 200
R Farber[2]	1 353	–	1 353
Dr BA Brink	1 286	–	1 286
HL Bosman[3]	1 278	–	1 278
SE De Bruyn Sebotsa	1 371	–	1 371
R Enslin[4]	830	99	929
F Khanyile[5]	614	–	614
Dr TV Maphai	859	–	859
TT Mboweni	1 317	–	1 317
AL Owen[6]	2 446	175	2 621
SV Zilwa	1 577	–	1 577
Total	**17 131**	**274**	**17 405**

1 *"Other benefits" comprise medical aid contributions, travel and other allowances.*
2 *R Farber was re-designated as a Non-executive Director on 1 April 2018. Remuneration and services rendered fees consists of AUD and rand components.*
3 *Director's fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.*
4 *Director's fees for services rendered are paid in USD.*
5 *Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.*
6 *Director's fees for services rendered are paid in GBP.*

DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS IN SHARES

According to the Register of Directors' Interests, maintained by Discovery in accordance with the provisions of section 30(4)(d) of the Companies Act, Directors and Prescribed Officers of Discovery have disclosed the following interest in the ordinary shares of the Company at 30 June:

Directors and Prescribed Officers	Direct beneficial	Indirect beneficial	Total 2018	Direct beneficial	Indirect beneficial	Total 2017
A Gore	–	49 618 784	49 618 784	–	49 618 784	49 618 784
R Farber	55 076	–	55 076	55 076	–	55 076
HD Kallner	100 398	–	100 398	100 398	–	100 398
NS Koopowitz	–	962 004	962 004	250 000	852 764	1 102 764
HP Mayers	36 948	8 449 550	8 486 498	36 948	8 449 550	8 486 498
A Ntsaluba	110 164	–	110 164	110 164	–	110 164
A Pollard	1 423 099	–	1 423 099	1 423 099	–	1 423 099
JM Robertson	1 404 439	3 390 812	4 795 251	1 404 439	3 390 812	4 795 251
B Swartzberg	3 384 227	22 279 011	25 663 238	3 384 227	22 279 011	25 663 238
DM Viljoen	10 000	–	10 000	10 000	–	10 000
Dr J Broomberg	152 842	–	152 842	160 842	–	160 842
Dr P Moumakwa	–	–	–	13 284	–	13 284
H Bosman	–	77 027	77 027	–	77 027	77 027
Dr BA Brink	25 000	–	25 000	25 000	–	25 000
Dr TV Maphai	1 919	491 395	493 314	1 919	1 074 349	1 076 268
K Rabson	–	755 000	755 000	–	755 000	755 000
SE De Bruyn Sebotsa	65 800	–	65 800	65 800	–	65 800
AL Owen	33 747	–	33 747	33 747	–	33 747
SV Zilwa	–	34 780	34 780	–	34 780	34 780
Total	**6 803 659**	**86 058 363**	**92 862 022**	**7 074 943**	**86 532 077**	**93 607 020**

The following sales of Discovery Limited shares have taken place between 30 June 2018 and the date of publication of the report:

Directors and Prescribed Officers	Direct beneficial	Indirect beneficial
Dr J Broomberg	20 000	
A Ntsaluba	7 000	
A Pollard	230 000	
Dr TV Maphai		84 000

NON-EXECUTIVE DIRECTORS' FEE PROPOSAL FOR FY2019

The fee structure for FY2018 and proposed for FY2019 is shown below (exclusive of VAT). The fees for FY2019 will be tabled at the AGM for approval as a special resolution.

	Current	Proposed
Retainer for the Board Chairperson	R4 200 000	**R4 431 000**
SA-based board retainer	R200 000	**R211 000**
SA-based board attendance fee	R33 500 per meeting	**R35 350 per meeting**
SA-based committee chairperson retainer	R225 200	**R237 590**
SA-based committee members retainer	R130 375	**R137 550**
SA-based committee chairperson attendance fees	R26 075 per meeting	**R27 500 per meeting**
SA-based committee member attendance fee	R16 600 per meeting	**R17 510 per meeting**
US-based board retainer	$39 620	**$40 800**
US-based board attendance fee	$6 565 per meeting	**$6 760 per meeting**
UK-based board retainer	£30 155	**£31 060**
UK-based board attendance fee	£5 065 per meeting	**£5 220 per meeting**
UK-based committee chairperson retainer	£28 535	**£29 390**
UK-based committee chairperson attendance fee	£2 800 per meeting	**£2 890 per meeting**
UK-based committee member retainer	£8 615	**£8 870**
UK-based committee member attendance fee	£1 190 per meeting	**£1 225 per meeting**
AU-based board retainer	AUD	**AUD54 350**
AU-based board attendance fee		**AUD9 130 per meeting**
AU-based committee member retainer		**AUD15 520**
AU-based committee member attendance fee		**AUD2 145 per meeting**
Travel allowance for return international travel	$2 700 per return leg	**$2 700 per return leg**

STATEMENT ON COMPLIANCE WITH THE REMUNERATION POLICY

The RemCo has satisfied itself that the remuneration policy as detailed in the 2018 Remuneration Report was complied with, and there were no substantial deviations from the policy during the year.

ADVISORY VOTE ON THE IMPLEMENTATION REPORT

The Board will table the implementation report for a non-binding advisory vote by shareholders at the AGM on an annual basis. Discovery will announce the voting results following the AGM.

Governance overview

ETHICS

Integrity, honesty and fairness form an integral part of the Discovery Group values. The Group is committed to a values-based, ethical culture based on non-discrimination, fairness, integrity and transparency. The Ethics Office is an independent Group function established to support the Board, executives, management and employees in nurturing this culture in the organisation. The Ethics Office is mandated by the Board, through the Social and Ethics Committee, to implement the Ethics Strategy.

The Social and Ethics Committee is mandated to assist the Board with the implementation and monitoring of strategies to ensure social and economic development, and the integration of ethics and transformation within the Group.

OUR LEADERSHIP

The Board of Directors, as the ultimate governing authority, is committed to leading the Group responsibly, ethically and with integrity in the best interest of all our stakeholders. Key stakeholders include shareholders, clients, partners, employees, regulators and the societies in which we operate.

The roles of the Chairman and Group Chief Executive are independent. It is clearly-defined in the Board Charter to ensure no individual has unrestricted decision-making power.

DETAILS OF OUR BOARD

MI Hilkowitz
FIA

Independent Non-executive Chairman

Committee membership

HL Bosman
BComm LLB, LLM (Cum Laude), CFA

Non-executive Director

Committee membership

*

A Gore (CEO)
BSc (Hons), FFA, ASA, MAAA, FASSA

Executive Director

BA Brink
BSc (Med), MBBCh, DMed (Hon)

Independent Non-executive Director

Committee membership

A Ntsaluba
MBChB, MSc (Lond), FCOG (SA)

Executive Director

HD Kallner
BEconSc, FFA, FASSA

Executive Director

Committee membership

R Farber
BCom (Hons), CA (SA), FCMA, CA ANZ, MAICD

Non-executive Director

Committee membership

NS Koopowitz
BCom, CFP

Executive Director

TV Maphai
BA, BA (Hons), M Phil, D Phil, Advanced Management Program (Harvard)

Non-executive Director

HP Mayers
BSc (Hons), FIA, FASSA

Executive Director

Committee membership

AL Owen
BSc (Hons), FPMI

Independent Non-executive Director*

Committee membership

*

A Pollard
BSc (Hons), FIA, FASSA

Executive Director

JM Robertson
BCom, CTA, CA (SA), HDipTax

Executive Director
(Retired with effect from 31 August 2018)

Committee membership

SE De Bruyn Sebotsa
LLB (Hons), MA, SFA, Harvard Exec. Prog.

Independent Non-executive Director*

Committee membership

*

DETAILS OF OUR BOARD
continued

F Khanyile
BA Econ, MBA (Finance), HDIP Tax, Executive Leadership Programme

Non-executive Director

Committee membership

■

B Swartzberg
BSc, FFA, ASA, FASSA, CFP

Executive Director

SV Zilwa
BCompt (Hons), CTA, CA (SA), Advanced Taxation Certificate (SA), Advanced Diploma in Financial Planning (UOFS), Advanced Diploma in Banking (RAU)

Independent Non-executive Director*

Committee membership

● ▲ ■*

TT Mboweni
BA Economics and Political Science (NUL), MA Development Economics (UEA), Diploma in International Business Diplomacy (Georgetown University)

Independent Non-executive Director
(Resigned with effect from 10 October 2018)

Committee membership

▲

R Enslin
Vast experience in information technology and strategy across geographies

Independent Non-executive Director

D Viljoen
BCom Accountancy (Cum Laude), BCom (Hons), CA (SA)

Executive Director

Committee membership

◆ ▲ ■

GROUP EXECUTIVES ACTING AS EXECUTIVES ON A SUBSIDIARY BOARD

J Broomberg
MBBCh, BA (Hons), MSc, PhD

Director and CEO of Discovery Health

Committee membership

■ ▲

K Rabson
BSc, FIA, FASSA

Executive Director Discovery Life and Discovery Invest

Committee membership

◆

P Moumakwa
(to January 2018)

MBChB

Executive Director Discovery Health

Committee membership

■

■ Social and Ethics Committee
▼ Remuneration Committee
◆ Actuarial Committee
▲ Risk and Compliance Committee
● Audit Committee

* *Chairperson*

View the curricula vitae of our Board and leadership in the Governance Report on **www.discovery.co.za** under Investor Relations.

BOARD AND COMMITTEE MEETINGS

	Board	Audit Committee	Risk and Compliance Committee	Actuarial Committee	Social and Ethics Committee	Remuneration Committee
Monty Hilkowitz (Chairman)	6/6*					4/4
Adrian Gore	6/6				2/3	
Discovery Non-executive Directors						
HL Bosman*	5/6		6/6			3/4
Dr Brian Brink	6/6		6/6		4/4	
SE Sebotsa*	6/6	6/7	6/6			4/4*
F Khanyile	6/6				4/4	
TV Maphai	6/6					
TT Mboweni *(resigned 10 October 2018)*	6/6		6/6			
AL Owen*	6/6	7/7*	6/6	8/8		
SV Zilwa*	5/6	7/8	6/6		4/4*	
R Farber *(Non-executive Director from 1 April 2018)*	5/6		2/2	1/1		
R Enslin	5/6					
Discovery Executive Directors						
D Viljoen	6/6		5/6	8/8	4/4	
R Farber *(Non-executive Director from 1 April 2018)*	5/6		2/4	5/7		
HD Kallner	6/6		5/6	5/8	4/4	
NS Koopowitz	6/6					
HP Meyers	5/6			3/8		
Dr A Ntsaluba	6/6				2/3	
A Pollard	5/6					
JM Robertson	6/6		6/6		2/3	
B Swartzberg	6/6		5/6		1/3	
B Hore (Discovery Bank)			2/2			
Group Executive and Prescribed Officers						
Dr P Moumakwa *(Resigned end of January 2018)*	6/6				3/3	
Dr J Broomberg	4/6		6/6		1/3	
KS Rabson	6/6			5/6		
A Rayner			6/6	8/8		
S Meintjies			5/6			
Anton Ossip			4/6			
Shrey Viranna *(Resigned end of January 2018)*			6/6			
Actuarial Committee						
C van der Riet				2/2		
Independent Chairman of the Actuarial Committee						
Peter Tripe* *(Appointed 1 November 2017)*				5/5		
Rob William				7/8		
Rob Lee				8/8		

* *Chairperson*

Board curricula vitae

The core purpose of Discovery is to make people healthier and to enhance and protect their lives. Discovery has a unique entrepreneurial spirit with a strong emphasis on innovation. The Discovery Board of Directors ("Board") is required to preserve these special attributes and ensure good governance.

DISCOVERY LIMITED CHAIRPERSON

Monty Hilkowitz (78)

Chairperson
(Non-executive)

Monty is Chairperson of the Discovery Board of Directors. He worked for Southern Life Association and Swiss Re before joining Liberty Life in 1971, where he was appointed as Managing Director in 1978. He was appointed Chief Executive Officer of Westpac Life in Australia in 1986. He has been self-employed since 1989 and involved in investment management, financial services and insurance interests in several countries.

Other directorships
Pioneer International (Chairperson).

Appointed
11/04/2002

Independent
Yes

Committee memberships
Remuneration Committee

Qualifications
FIA

Areas of expertise
Investment management, financial services and insurance

DISCOVERY LIMITED BOARD OF DIRECTORS

Dr Brian Brink (66)

Non-executive Director

Brian retired as Chief Medical Officer of Anglo American plc at the end of 2014. He was awarded an honorary doctorate in medicine by the University of the Witwatersrand in recognition of his contribution to the private sector response to HIV and AIDS in South Africa. He has been a member of the private sector constituency on the Board of The Global Fund to Fight AIDS, Tuberculosis and Malaria since its inception in 2002. Brian has long experience in the funding and delivery of healthcare and remains actively engaged in discussions around universal health coverage, health systems strengthening and public-private partnerships in health.

Other directorships
Brian serves on several NGO boards in the field of health and human rights, including Section27, Right to Care, the International Women's Health Coalition and GrassrootSoccer.

Appointed
19/02/2004

Independent
Yes

Committee memberships
Risk and Compliance Committee
Social and Ethics Committee
Treating Customers Fairly Sub-Committee

Qualifications
BSc (Med), MBBCh, DMed (Hon)

Areas of expertise
Health insurance, health services delivery, workplace health, health and human rights, health systems strengthening in resource poor settings. Thought leader on the role of the private sector in improving health in developing countries.

Herman Bosman (49)

Non-executive Director

Herman is the Chief Executive Officer of RMB Holdings and Rand Merchant Insurance Holdings, having joined the companies in April 2014. Prior to his current role, he was Chief Executive Officer of Deutsche Bank South Africa (2006 – 2013) and Head of Corporate Finance at Rand Merchant Bank (2000 – 2006). In these capacities, Herman has acted as professional advisor to the Discovery executive on numerous occasions since 1999.

Other directorships
FirstRand, Hastings Group plc and OUTsurance.

Professional body membership
Board of Governors, University of Johannesburg, Endeavor South Africa (Chairman).

Appointed
14/04/2014

Independent
No

Committee memberships
Risk and Compliance Committee (Chair)
Remuneration Committee

Qualifications
B.Comm LLB
LLM (Cum Laude), CFA

Areas of expertise
Professional strategy adviser and financial analyst

Discovery

Richard Farber (47)

Non-Executive Director
(from April 2018)

Richard was a Partner at Fisher Hoffman Sithole (PKF) from 1998 until 2001 before joining Investec Bank, where he was the Group Accountant from 2002 to 2003. He joined Discovery as the Chief Financial Officer in 2003 and was appointed as the Financial Director on 1 July 2009. Richard relinquished his roles as Chief Financial Officer and Group Financial Director of Discovery from 30 April 2017. He remains a member of the Board of Directors.

Professional body membership
Richard was a member of the Financial Reporting Investigation Panel (FRIP) – previously known as the GAAP Monitoring Panel, from 2005 until 2014. He is a Chartered Accountant and a Fellow of the Chartered Institute of Management Accountants.

Appointed
1/07/2009

Independent
No

Committee memberships
Risk and Compliance Committee
Actuarial Committee

Qualifications
BCom (Hons), CA (SA), FCMA, CA ANZ, MAICD

Areas of expertise
Strategy and policy development, and financial management

Adrian Gore (54)

Founder, Executive Director and Group Chief Executive

Adrian is the founder and Group Chief Executive of the Discovery Group. Discovery is a diversified and multinational financial services group that is the global leader in behaviour-linked insurance. In 1998, he was recognised as South Africa's Best Entrepreneur by Ernst & Young, and in 2004, was chosen as South Africa's leading CEO in the annual Money Web CEO's CEO of the Year Awards. In 2008, he received the Investec Award for Considerable Contribution in a Career/ Profession, and in 2010, he was named as the Sunday Times Business Leader of the Year. Alongside his commitments, he works with other leaders to stimulate entrepreneurship in South Africa. In 2017, Adrian received the Frost and Sullivan Visionary Innovation Leadership Award for Africa and Ernst & Young Global Life Time Achiever (Entrepreneurship) Award.

Other directorships
Past Chairman Endeavor South Africa chapter. WEF Industry Council Agenda on Future Health. Columbia University Mailman School of Public Health. WHO Commission to end Childhood Obesity. Chairman: SA SME Fund. Chairman: King David School Foundation.

Professional body membership
Fellow of the Actuarial Society of South Africa and of the Faculty of Actuaries (Edinburgh), an Associate of the Society of Actuaries (Chicago), and a member of the American Academy of Actuaries.

Appointed
Founder

Independent
No

Qualifications
BSc (Hons), FFA, ASA, MAAA, FASSA
Honorary Doctorate Faculty of Commerce 2017 (Wits)

Areas of expertise
Strategy development and execution in leading change and building excellent financial services businesses. Strong innovation, entrepreneurship and leadership skills that make a significant contribution to national thought–leadership and creating positive social change

Hylton Kallner (43)

Executive Director

Hylton graduated from the University of the Witwatersrand with a BEconSc in Actuarial Science in 1995. In 1996 Hylton started his career at Liberty Life in the actuarial division. In October 1996, he joined Discovery Health where he has held various positions in marketing, actuarial and strategic projects. He served as the Group's Chief Marketing Officer from 2006 to 2015 and is currently the Chief Executive Officer of Discovery Life. Hylton plays a key role in the executive committees of Discovery Limited, Discovery Health, Discovery Life, Discovery Invest, and Discovery Vitality. Hylton was also appointed to the Boards of Discovery Health and Discovery Life in April 2010.

Professional body membership
Fellow of the Faculty of Actuaries and a Fellow of the Actuarial Society of South Africa.

Appointed
3/06/2010

Independent
No

Committee memberships
Actuarial Committee
Social and Ethics Committee

Qualifications
BEconSc, FFA, FASSA

Areas of expertise
Marketing, actuarial and strategic projects

Neville Koopowitz (54)

Executive Director

Neville joined Discovery as Marketing Director in 1996 and has played a key role in defining and building the Discovery identity as well as the development of Discovery's sales and distribution network. A particular area of focus of his has been the development of Vitality where he was the Chief Executive Officer from inception in 1997. In this role he oversaw the launch of Discovery Card. In 2005 he took up the role of Chief Executive Officer Discovery Health, which he held until his move to the UK in 2010. He is currently the CEO of VitalityHealth in the UK.

Professional body membership
Association of British Health Insurers (member of the Health Committee).

Appointed
19/09/1999

Independent
No

Qualifications
BCom, CFP

Areas of expertise
Corporate identity building, establishing new business and distribution channels. Business operations, strategy and management

Dr Vincent Maphai (66)

Non-executive Director

Vincent was the Director of Corporate Affairs and Transformation at SAB. Previously, he was the Southern African Chairperson of BHP Billiton. He has accumulated experience of 20 years in the academic profession, and 15 years as a senior executive in the private sector. Vincent has served on the Boards of various companies as Non-executive Chairperson, including the SABC and the Presidential Review Commission into the restructuring of the public sector. His two-year academic position at Williams College in Massachusetts has just ended.

Other directorships
Discovery Foundation (Chairperson).

Professional body membership
South African Academy of Sciences Institute of Directors.

Appointed
8/12/2005

Independent
Yes

Qualifications
BA, BA (Hons), M Phil, D Phil, Advanced Management Programme (Harvard)

Areas of expertise
Transformation and restructuring. Political analysis

Herschel Mayers (58)

Executive Director

Herschel qualified as an actuary in 1986. He joined Liberty Life after qualifying, and as a member of their Executive Committee, served as the Head of Individual and Group Business, Underwriting and Systems, Technology, Product Development, and Finance. Herschel joined Discovery in 2000 as the Managing Director of Discovery Life. In January 2006, Herschel was appointed as Chief Executive Officer of Discovery Life and Discovery Invest. He held this position until December 2015. He is now the Chief Executive Officer of VitalityLife and VitalityInvest in the UK.

Other directorships
Serves on the Board of the Association for Savings and Investment South Africa (previously LOA).

Professional body membership
Fellow of the Institute of Actuaries.

Appointed
11/03/2000

Independent
No

Committee memberships
Actuarial Committee

Qualifications
BSc (Hons), FIA, FASSA

Areas of expertise
Product development, finance, and strategy development

Tito Titus Mboweni (59)
Non-executive Director
(Resigned with effect from 10 October 2018)

Mr T.T. Mboweni is the former Governor of the Reserve Bank of South Africa (1999 to 2009) and also Chairperson of the Committee of Central Bank Governors. He is the former Deputy Head of the ANC's Department of Economic Policy (1990 to 1994) and the Head of the ANC Policy Department (1994 to 1998).

In December 2017, he was re-elected a member of the ANC National Executive Committee (NEC). He is a member of the NEC Economic Transformation sub-committee.

Member of the Thabo Mbeki Foundation Council of Advisors, Nelson Mandela Children's Hospital Board of Trustees and Chairman of its Fundraising Committee.

He is honorary professor of economics at a number of universities in South Africa and Chairman of the International Advisory Board of the Oxford University African Studies centre.

Mr Mboweni resigned from the Discovery Limited Board with effect from 10 October 2018.

Other directorships
Chairperson of the Boards of Nampak Ltd and Accelerate Property Fund, as well as Chairperson of the African Centre for Economic Transformation. He is an Advisor to Goldman Sachs International and a member of the Advisory Board for Total Oil Marketing's Strategic Consultative Committee for Africa and Middle East and was non-executive Director of Discovery Bank.

Appointed
1/1/2014

Independent
Yes

Committee memberships
Risk and Compliance Committee

Qualifications
BA Economics and Political Science (NUL), MA Development Economics (UEA), Diploma in International Business Diplomacy (Georgetown University).

Areas of expertise
Political analysis, economic analysis, public policy design and execution, executive management, macro-level strategy and advice

Dr Ayanda Ntsaluba (58)
Executive Director

Before joining Discovery in 2011, Ayanda served as Director General of the Department of International Relations and Cooperation. Before this, he was Director General of the Department of Health. A qualified obstetrician and gynaecologist, Ayanda completed further tertiary education in the fields of health policy planning, international relations, and business at eminent universities, including Harvard University, the University of London, and the Moscow Institute of Social Science. Ayanda plays an instrumental role in Discovery's overall strategic planning, particularly within the healthcare system and in Discovery's international expansion strategy.

Professional body membership
He has served on a number of statutory bodies, including the Medical Research Council (SA) and the Health Professions Council of South Africa.

Appointed
1/7/2011

Independent
No

Qualifications
MBChB, MSc (Lond), FCOG (SA)

Areas of expertise
Health policy planning, international relations, and business

Les Owen (69)
Non-executive Director

Les has over 40 years of experience in the UK and Asia Pacific insurance markets. He was the Group Chief Executive of AXA Asia Pacific Holdings Limited (2000 to 2006) and Chief Executive of AXA Sun Life in the UK (1995 to 1999). Les joined the Board of Discovery in 2007 and is Chairperson of the Discovery Limited Audit Committee.

Other directorships
Non-executive Director of Computershare Ltd and Royal Mail plc.

Professional body membership
Fellow of the Pensions Management Institute (UK).

Appointed
6/12/2007

Independent
Yes

Committee memberships
Audit Committee (Chairperson)
Risk and Compliance Committee
Actuarial Committee

Qualifications
BSc (Hons), FPMI

Areas of expertise
International insurance markets

Alan Pollard (49)
Executive Director

Alan, a qualified actuary, joined Discovery in 1994 and was Head of Research and Development where he was responsible for the design and development of Discovery Health products. From 2005, he served as Chief Executive Officer of Discovery Vitality until relocating in 2012 to serve as Chief Executive Officer of The Vitality Group in the US until 2016. Following the restructure of Vitality Group to include the Discovery Partner Market business, Alan serves as President of Product and Innovation of Vitality Group, and continues to be based in the US.

Professional body membership
Actuarial Society of South Africa; Institute of Actuaries.

Appointed
30/08/2007

Independent
No

Qualifications
BSc (Hons), FIA, FASSA

Areas of expertise
Product design, behavioural economics

John Robertson (70)
Executive Director

John joined Discovery in 1993 and was responsible for information technology strategy, systems development, information technology infrastructure, and finance. He is currently responsible for technology infrastructure services that support Discovery Group companies in South Africa and internationally. He is also responsible for corporate applications, shared services and facilities.

John has announced his retirement as an Executive Director and Group Chief Information Officer from the Board of the Company with effect from 31 August 2018.

He will remain available for certain of his operational responsibilities to facilitate a smooth transition.

Appointed
17/09/1999

Independent
No

Committee memberships
Risk and Compliance Committee

Qualifications
BCom, CTA, CA (SA), HDipTax

Areas of expertise
Information technology strategy, systems development, infrastructure and finance

Sonja De Bruyn Sebotsa (46)
Non-executive Director

Sonja is the Founder and Principal Partner of Identity Partners, an investment firm which makes equity investments, carries out advisory work, and provides debt and equity finance for SMEs through the Identity Development Fund. Until August 2007, she had been an Executive Director of WDB Investment Holdings where she led the structuring of several of WDB's investment transactions. Before this, she was a Vice President in the investment banking division of Deutsche Bank, where she worked in Mergers and acquisitions and Corporate Finance in South Africa and the UK.

Other directorships
Servers on the Boards of RMB Holdings Ltd, RMI Holdings Ltd, Dimension Data SA and Remgro Ltd.

Appointed
8/12/2005

Independent
Yes

Committee memberships
Audit Committee
Risk and Compliance Committee
Remuneration Committee (Chairperson)

Qualifications
LLB (Hons), MA, SFA, Harvard Executive Programme

Areas of expertise
Law, business, and economics

Barry Swartzberg (53)
Chief Executive Officer Vitality Group

Barry is the co-founder of Discovery. He was instrumental in establishing Discovery Health's marketing, distribution, and operational functions, first as Chief Marketing Officer (1992 –1996), and then as Chief Operations Officer (1997 – 1999). He then served as CEO from 2000 to 2005, establishing the company's first low-income medical scheme and launching Discovery Health's administration services business for closed medical schemes. From 2005 to 2014, he served as Group Executive Director responsible for Discovery's strategy and new business development. In this role he initiated Discovery's strategy to launch a retail bank, helped start Discovery Insure, secured the shareholding in Ping An Health, established the first Insurance Partnership with AIA, and established Vitality USA. Barry now serves as the CEO of Vitality Group, which is responsible for the expansion of Discovery's Shared-Value Insurance model outside of South Africa and the UK. He serves on the Boards of Discovery Limited, Discovery Insure, Vitality Group in the US, and Ping An Health in China.

Other directorships
Director of Endeavor – non-profit entity that assists scale up entrepreneurs.

Professional body membership
Fellow of the Faculty of Actuaries (Edinburgh).

Appointed
3/8/1999

Independent
No

Qualifications
BSc, FFA, ASA, FASSA, CFP

Areas of expertise
Infrastructure development, business diversification, strategy development and execution

Sindi Zilwa (51)
Non-executive Director

Sindi is a retired Chartered Accountant, previously an entrepreneur and CEO of Nkonki, a firm she co-founded in 1993 and managed until she retired through a management buyout (23 years later) on 31 October 2016. She received the Businesswoman of the Year Award from the Executive Women's Club in 1998, and in 2008, the Woman of Substance Award by the African Women Chartered Accountants Forum. In 2014, she received an Overall Professional Woman of the Year by SAPSA and in 2016, she was acknowledged as the Outstanding CEO of the Black Audit Firm's Award. In 2013, she authored her first book, ACE Model-Winning Formula for Audit Committees, which is used by the Institute of Directors to train Audit Committee members, and published Creating Effective Boards and Committees in 2016.

Other directorships
Aspen, Metrofile, Mercedes Benz of South Africa Limited, Tourvest Limited, and Gijima.

Appointed
20/02/2003

Independent
Yes

Committee memberships
Social and ethics Committee
Audit Committee
Risk and Compliance Committee
Treating Customers Fairly Sub-Committee

Qualifications
BCompt (Hons), CTA, CA (SA), Advanced Taxation Certificate (SA), Advanced Diploma in Financial Planning (UOFS), Advanced Diploma in Banking (RAU)

Areas of expertise
Accounting, auditing, compliance, governance, risk management and transformation

Faith Khanyile (51)
Non-executive Director

Faith is a founding member and the CEO of WDB Investment Holdings (WDBIH). She held various senior and executive roles with Standard Bank, Corporate & Investment Bank (2001 to 2013). She was responsible for strategy, relationship and business development, and served on their Executive and Credit Committees. Before joining Standard Bank, Faith was with Brait Private Equity and seconded to start and manage WDBIH (1995 to 2000). She completed a BA Economics degree with Honors at Wheaton College, USA, has an MBA (Finance) from Bentley Graduate School of Business, and completed an HDIP Tax. She also participated in the Columbia University Executive Leadership Programme in 2007 and was awarded the Doctor of Law by Wheaton College in May 2016.

Appointed
01/10/2015

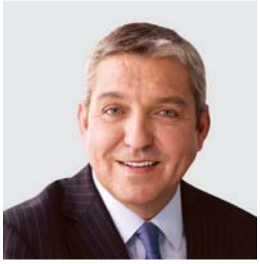
Independent
Yes

Committee memberships
Social and Ethics Committee

Qualifications
BA Econ, MBA (Finance), HDIP Tax, Executive Leadership Programme

Areas of expertise
Financial services, corporate and investment banking, and strategy development

Robert Enslin (55)
Non-executive Director



Robert Enslin is president of the Cloud Business Group and is a member of the Executive Board of SAP SE. He is responsible for all end-to-end cloud business functions. As a member of the Executive Board, Robert provides direct input into SAP's business strategy that fuels the research and development priorities. Robert joined the SAP Executive Board in 2014 while serving as president of Global Customer Operations. Before this, he served as chief operating officer and executive vice president of Fast Growth Markets for the global field organization, and was responsible for developing operations in India, Turkey, Brazil, China, and other emerging-market countries.

Robert initially joined SAP in 1992 and was instrumental in building a significant SAP presence in South Africa. Before joining SAP, Robert spent 11 years in various roles in the IT industry.

Other directorships
Member of the Board of Directors of Docker in San Francisco, California.

Professional body membership
Executive Sponsor for SAP's Autism at Work program and honorary global Chairman of the Els for Autism Golf Challenge.

Appointed
04/05/2017

Independent
Yes

Experience
Creating and managing completely integrated portfolios to further scale and accelerate long-term business strategy. Enablement of efforts across geographies and overseeing functions such as services, ecosystem and channel, and solutions.

Areas of expertise
Global business, enterprise software technology, go-to-market strategy development, sales enablement and execution, leadership and strategic partner development

Deon Viljoen (53)
Group Financial Director and Executive Director

Deon joined the Discovery Group in May 2017 as Group Chief Financial Officer. Before joining Discovery, he was with the Alexander Forbes Group. Deon originally joined them in 2003 as Finance Director of Investment Solutions. He later became Finance Director of the Group's African operations. In 2007, when the Group was the subject of a private equity transaction, Deon took the role of Group Chief Financial Officer. In this role, Deon served as Executive Director on the Board of Alexander Forbes Group Holdings Limited, and the listed special purpose vehicle Alexander Forbes Preference Share Investments Limited, as well as on subsidiary boards and Committees. Deon was instrumental in the strategic repositioning during the private equity holding and the relisting in 2014. He also served as interim Chief Executive during 2016.

Deon was named CFO of the Year 2015 by CFO SA.

Earlier in his career, he was a partner and director of PricewaterhouseCoopers Johannesburg. As part of his specialisation in banking and financial services, he advised clients and presented on topics such as financial risk management.

Professional body membership
While in the accountancy profession, Deon was a member of the SAICA Banking Industry Group. He also chaired the Investment Management and the Collective Investment Schemes Industry Groups.

Appointed
01/05/2017

Independent
No

Committee memberships
Risk and Compliance Committee
Social and Ethics Committee
Actuarial Committee

Qualifications
BCom Accountancy (cum laude), BCom (Hons), CA(SA)

Areas of expertise
Specialised in financial services including banking, and expertise in specialist topics such as financial risk management

PRESCRIBED OFFICERS OF THE BOARD

Dr Penny Moumakwa (54)
Head of Discovery People and Sustainable Development
(to January 2018)

Penny joined Discovery in 2005 and has held various leadership positions. She was the Head of Human Resources, Enterprise Development and Social Responsibility for Discovery, and a Director of Discovery Health. She is also a member of the Board of Witkoppen Clinic and African Health Placements. Penny qualified as a medical doctor in 1987 and worked in both the public and private sectors as a clinical doctor until 1996.

Qualifications
MBChB

Kenny Rabson (50)
CEO Discovery Invest and Employee Benefits

Kenny joined Discovery in 2000 as a founding member of Discovery Life. He was responsible for all actuarial functions in Discovery Life and Discovery Invest, with particular focus on product development and strategy of these companies. Kenny was appointed as CEO of Discovery Invest in January 2016. Before joining Discovery, he worked at Liberty Life in their corporate valuations area, performing the annual valuations and analysis of surplus work. He qualified as an actuary through the Institute of Actuaries in the UK in 1994 and moved to Liberty's where he established his skills in product development. This culminated in Kenny establishing Liberty's linked investment product company in 1997. In May 2018, he spearheaded the launch of Discovery into Umbrella Funds.

Qualifications
BSc FIA, FASSA

Jonathan Broomberg (57)
CEO Discovery Health

Jonathan studied medicine at the University of the Witwatersrand and then read Philosophy, Politics and Economics at Balliol College in the United Kingdom. He completed MSc and PHD degrees in Health Economics at the London School of Hygiene and Tropical Medicine. Jonathan joined Discovery Health in 2005 as Head of Strategy and was appointed CEO in 2010. Prior to joining Discovery Health, he managed private equity and venture capital investments in the healthcare and education sectors. Jonathan also spent several years in academic research and consultancy in health economics and policy, and served as a special advisor to Dr Nkosozana Dlamini Zuma, South Africa's Minister of Health between 1994 and 1999. Alongside his private sector interests, he maintains active engagement in South African and global public health affairs. He is also a Director of Soul City Institute, a member of the Council of the University of the Witwatersrand, and a Trustee of the Discovery Foundation.

Qualifications
MBBCh, BA (Hons), MSc, PhD

Responsibilities of the Board

The Board Charter sets out the roles and responsibilities of the Board. The Board formally meets six times a year to discuss and review a relevant schedule of matters. At these meetings the Directors approve strategy, and discuss the development and implementation of the previously approved long- and short-term strategies of the Group, and engage with executive management on the implementation of Group strategies. An internal evaluation of the performance of the Board was conducted earlier in the year.

Appointment and rotation of directors

Appointments to the Board are made formally and transparently, with the assistance of a Nominations Committee, specifically established to search for and vet potential directors. Potential members of the Audit Committee are identified by the Board and recommended to the shareholders at the Group's AGM.

Non-Executive Directors are appointed for three years. The re-appointment of directors is not automatic. It is dependent on the knowledge and skill required by the Board, the director's fit, and the diversity targets the Board determines.

Gender and race diversity

Diversity in race and gender forms an integral part of the way Discovery conducts its business and this is clear from the Board Charter, recruitment policies and the Group Broad-Based Black Economic Empowerment Policy. Discovery is committed to maintaining a working environment that is fair and non-discriminatory.

The Board recognises the importance of diversity. In light of this, the Board formally adopted the Broad-Based Black Economic Empowerment Policy to annually review the status of gender and race diversity, and set achievable targets to ensure fair representation. In the period, there were three women on the Board and six out of 20 Board members are black. The Board is satisfied that its current composition reflects the appropriate mix of knowledge, skills, diversity and experience required to meet the Group's objectives.

Group Financial Director

The Audit Committee reviews the qualifications and performance of the Financial Director annually. The performance and financial knowledge of the Financial Director, Deon Viljoen, was reviewed as part of his appointment. The Committee is satisfied with the appropriateness, experience and adequacy of the finance function within the Group.

Company Secretary

The Company Secretary, Thys Botha, ensures that sound governance procedures are followed and maintained. In accordance with the JSE Listings Requirements, the Board has evaluated the Company Secretary's competence, qualifications, skills, knowledge and experience. The Board is satisfied that the Company Secretary fulfils his responsibilities and is suitably qualified to continue fulfilling these responsibilities.

Trading in Discovery shares

Applying best practice and meeting regulatory provisions, we have policies and procedures in place to manage the trading of shares and conflict of interest. Directors are prohibited from dealing directly or indirectly in shares during closed periods. In addition, Directors have to disclose any direct or indirect interest they have in any matter for the Board to consider.

King IV™

The Board recognises that to be sustainable and ethical, it is best practice to conduct the business of the Group in accordance with the principles and practices in King IV™. King IV™ recommendations are entrenched in the Group's governance and risk management structures, policies and procedures. We report further on this in our Governance Report on **www.discovery.co.za** under Investor relations.

Board Committees

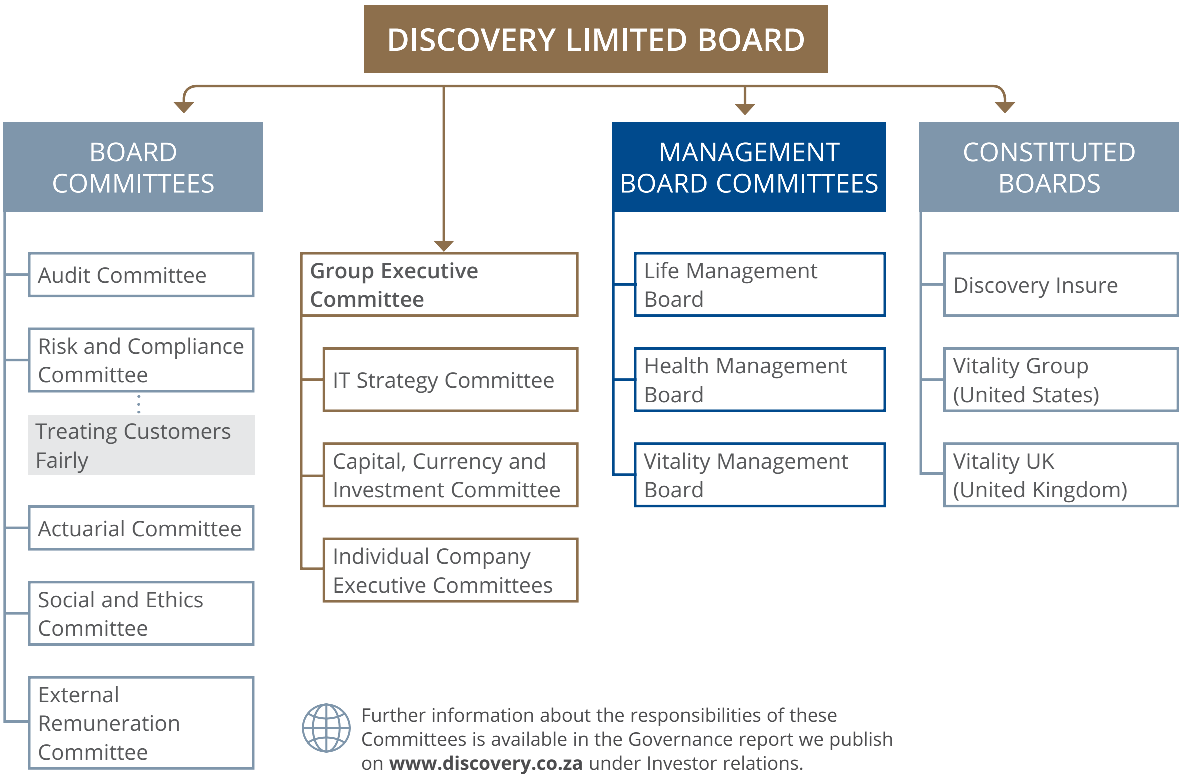
The Board is responsible and accountable for the governance, performance and strategy of the Group. The Group governance structure is strengthened by Board Committees as well as management committees. These committees support the Board in its responsibilities. Each committee acts within approved terms of reference and authority from the Board.

Audit Committee

The Audit Committee provides independent oversight of the integrity of the Annual Financial Statements and the effectiveness of the Group's internal Audit, external Audit and finance function.

The Committee is of the view that Discovery has established appropriate financial reporting procedures, and that those procedures are operating effectively.

Overview of the Board and subcommittees



Further information about the responsibilities of these Committees is available in the Governance report we publish on **www.discovery.co.za** under Investor relations.

NOMINATIONS COMMITTEE

When the Board identifies a need to appoint a Director with a specialist skill, a Nominations Committee is set up to find an individual who would be suited for this role. Once identified, the Nominations Committee shares the details and skills of candidates with the Board. The duties of the Nomination Committee end here. Board members collectively decide about inviting an individual to join the Board. In most cases, the Nominations Committee will include the Chairman of the Board, the Chief Executive and Non-executive Director, Mr Herman Bosman.

GROUP RISK MANAGEMENT

Group Risk Management is independent from day-to-day management. Its primary responsibilities include:

- Assisting Discovery to identify, assess, monitor, and mitigate its material risks, and to promote a sound risk culture.
- Assisting the Board and senior management to develop and maintain Discovery's risk management system, including promptly informing the Board of any circumstances that may have an adverse material effect on Discovery's risk management system.
- Integrating the view of risk and capital, and ensuring that sufficient capital is in place to operate sustainably within the risk appetite and the prevailing risk profile.

KEY FOCUS AREAS FOR GROUP RISK MANAGEMENT DURING THE YEAR

Solvency Assessment and Management (SAM) readiness

SAM came into effect on 1 July 2018. Discovery complied at the go-live date as the requirements of both SAM and Solvency II were already firmly embedded in the business. All relevant businesses have been through at least three full solvency assessment cycles (most of them four), including the full process and reporting. Measurement of solvency according to the SAM framework is part of the business reporting cycle and integrated with our capital management framework. Discovery has focused on using the Own Risk and Solvency Assessment process to extract valuable insights to improve business intelligence, resilience to adverse scenarios, and to identify opportunities to improve the deployment of capital.

Cyber risk

The threat of cyber risk within Discovery was previously managed organically as part of information security discipline, consisting of people, processes and procedures, and associated technologies to protect the Group against both malicious and non-malicious threats. The increased sophistication of cybercrime, and the increased impact and likelihood of these risks have necessitated a heightened focus on cyber risk.

In response to the increased cyber threat, Discovery has been enhancing the cyber capability programme to embed and improve overall resilience. Efforts have focused on three elements, including:

1 **CYBER CAPABILITY ASSESSMENT**
Risk assessment of current cyber resilience capabilities.

2 **CYBERSECURITY STRATEGY**
Cyber risk appetite setting and framework development.

3 **CYBER RISK PROGRAMME**
Ongoing monitoring and overseeing of the cyber capability programme.

Read more on **www.discovery.co.za** under Investor relations.

Embedding and maturing risk management capabilities

Further strengthening of the risk management capabilities occurred during the year in both first- and second-line risk teams, and encompassed risk systems as well as key risk personnel. Additional technology and actuarial specialist skills have been recruited and work has continued to further strengthen the links between the risk resources in the United Kingdom and South Africa, and between the teams responsible for risk and capital management respectively. We reviewed, refreshed and approved all the significant risk policies. Substantiation of compliance with all policy requirements was also completed for all relevant risk policies during the year.

Combined Assurance Model

Discovery has employed a Combined Assurance Model. It is a coordinated approach that ensures that all assurance activities by management, internal assurance providers and external assurance providers adequately address material risks and that suitable controls exist to mitigate these risks to an acceptable level.

As such, the Combined Assurance Model:

- Links risk management activities with assurance activities.
- Provides the basis for identifying any areas of potential assurance gaps and duplication of the resources.
- Guides the Board, as well as the Audit and Risk and Compliance Committees, and assists to provide a view of the combined assurance status.
- Provides an integrated assurance service and enhances accountability.
- Ensures an adequate and effective risk control environment aligned with the risk appetite and the integrity of the risk-related reports for optimal decision making.

INDEPENDENCE OF EXTERNAL AUDITOR

PricewaterhouseCoopers Inc. is the external auditor of the Group. The engagement partner responsible for the audit rotates every five years in line with audit partner rotation.

The Audit Committee believes that the auditor has observed the highest level of business and professional ethics. The committee is satisfied that the auditor has, at all times, acted with unimpaired independence. In reaching this conclusion, the committee considered the following:

- Representations made by the external auditors to the Audit Committee;
- Independence criteria specified by the Independent Regulatory Board for Auditors and international regulatory bodies as well as criteria for internal governance processes within audit firms;
- Auditor suitability assessment in terms of paragraph 3.84(g) (iii) and section 22.15(h) of the JSE Listings Requirements; and
- The extent of other work undertaken by the auditors for the Group.

COMPLIANCE

Key focus areas for compliance during the year

During the year, we focused on the following material developments within our regulatory environment that have an impact on our business:

1. **Implementation of a Group-wide anti-money laundering framework**
   We have made substantial progress to incorporate the amendments to the anti-money laundering requirements in various business processes during the year. Our focus was to develop a comprehensive anti-money laundering framework that delivers on the objectives of the requirements and that aligns with business processes.

2. **Enhancing Treating Customers Fairly (TCF)**
   The TCF principles are now firmly embedded in the business processes based on the objectives defined by the Financial Services Board (now Financial Services Conduct Authority). During the year we completed the work to define the objectives of TCF for each business in order to identify the appropriate measures to evaluate our performance against these objectives. The internal reporting standards have also been enhanced to more effectively oversee how each business is performing against their defined objectives. We have also established a committee as part of the governance structure, to provide the Board with updates on the status of TCF within the business.

3. **Enhancing compliance with local and international data privacy requirements**
   Discovery's approach to data privacy is to adopt international best practice to the extent that this is possible within the ambit of the South African Regulatory requirements. To ensure adequate protection against regulatory sanctions, the most stringent requirements are applied.

The International Standard for Data Privacy is the General Data Protection Regulation (GDPR) and impacts a large part of Discovery's international business.

During the year, we focused on analysis of the draft regulation, issued in September 2017, of the Protection of Personal Information Act. The Group submitted comments on these draft regulations to the Regulator at the end of 2017. A Privacy Programme Manager was appointed and contracted for a period of 12 months to assist the Group with the implementation of the Protection of Personal Information Act as well as relevant GDPR requirements.

This programme aims to address the remaining requirements to ensure full compliance with the Protection of Personal Information Act by the end of September 2019.

4. **Enhancement to our Governance Framework**
   During the year we initiated a number of programmes to review and enhance the Governance Framework. This included:

   Implementation of the King IV principles
   The Governance Framework was aligned with the recommended practices. Read more in our Governance Report on **www.discovery.co.za** under Investor relations.

   Enhancement to comply with Fit and Proper requirements
   The Group adopted the Fit and Proper requirements as it applies to the Key Persons and significant owners. The subsequent publication of the Prudential Authority Standards proposed enhanced requirements, which have been taken into consideration with the evaluation and verification of appointed Board members during the year.

   Implementation of the Retail Distribution Review (RDR)
   During the year, we continued our engagement with the regulator as well as our participation in various industry initiatives on the implementation of the RDR. This process is ongoing.

FINANCIAL STATEMENTS

Statement of financial position

at 30 June 2018

R million	Group 2018 Audited	Group 2017 Audited
Assets		
Assets arising from insurance contracts	**43 625**	37 691
Property and equipment	**4 272**	1 210
Intangible assets	**5 491**	4 071
Deferred acquisition costs	**1 150**	1 025
Goodwill	**2 247**	2 107
Investment in equity-accounted investments	**1 159**	979
Financial assets		
– Available-for-sale investments	**7 547**	7 298
– Investments at fair value through profit or loss	**71 246**	58 948
– Derivatives	**494**	392
– Loans and receivables including insurance receivables	**7 543**	6 470
Deferred income tax	**1 968**	1 337
Current income tax asset	**38**	34
Reinsurance contracts	**308**	263
Cash and cash equivalents	**10 894**	9 098
Total assets	**157 982**	130 923
Equity		
Capital and reserves		
Ordinary share capital and share premium	**8 308**	8 306
Perpetual preference share capital	**779**	779
Other reserves	**1 280**	346
Retained earnings	**27 227**	22 859
	37 594	32 290
Non-controlling interest	*****	*
Total equity	**37 594**	32 290
Liabilities		
Liabilities arising from insurance contracts	**61 488**	52 477
Liabilities arising from reinsurance contracts	**8 918**	6 746
Financial liabilities		
– Negative reserve funding	**–**	847
– Borrowings at amortised cost	**14 079**	8 524
– Investment contracts at fair value through profit or loss	**17 927**	14 867
– Derivatives	**78**	135
– Trade and other payables	**9 043**	7 369
Deferred income tax	**8 007**	6 963
Deferred revenue	**324**	291
Employee benefits	**232**	191
Current income tax liability	**292**	223
Total liabilities	**120 388**	98 633
Total equity and liabilities	**157 982**	130 923

* *Amount is less than R500 000.*

Income statement

for the year ended 30 June 2018

R million	Group 2018 Audited	Group 2017 Audited	% change
Insurance premium revenue	36 685	33 533	
Reinsurance premiums	(4 356)	(3 837)	
Net insurance premium revenue	32 329	29 696	
Fee income from administration business	9 252	8 372	
Vitality income	4 491	4 267	
Investment income	895	758	
– investment income earned on shareholder investments and cash	209	150	
– investment income earned on assets backing policyholder liabilities	686	608	
Net realised gains on available-for-sale financial assets	10	8	
Net fair value gains on financial assets at fair value through profit or loss	5 823	2 108	
Net income	52 800	45 209	17
Claims and policyholders' benefits	(20 714)	(19 237)	
Insurance claims recovered from reinsurers	2 735	2 816	
Recapture of reinsurance	–	(858)	
Net claims and policyholders' benefits	(17 979)	(17 279)	
Acquisition costs	(5 594)	(5 237)	
Marketing and administration expenses	(17 219)	(15 652)	
Amortisation of intangibles from business combinations	(123)	(171)	
Recovery of expenses from reinsurers	2 542	2 985	
Net transfer to/from assets and liabilities under insurance contracts	(4 859)	(3 362)	
– change in assets arising from insurance contracts	5 141	5 346	
– change in assets arising from reinsurance contracts	36	(109)	
– change in liabilities arising from insurance contracts	(8 088)	(6 625)	
– change in liabilities arising from reinsurance contracts	(1 948)	(1 974)	
Fair value adjustment to liabilities under investment contracts	(1 308)	(248)	
Profit from operations	8 260	6 245	32
Finance costs	(959)	(478)	
Foreign exchange losses	(4)	(21)	
Share of net profits from equity-accounted investments	115	26	
Profit before tax	7 412	5 772	28
Income tax expense	(1 677)	(1 278)	(31)
Profit for the year	5 735	4 494	28
Profit attributable to:			
– ordinary shareholders	5 652	4 411	28
– preference shareholders	83	83	
– non-controlling interest	*	*	
	5 735	4 494	28
Earnings per share for profit attributable to ordinary shareholders of the company during the year (cents):			
– undiluted	876.1	684.2	28
– diluted	875.6	683.6	28

* *Amount is less than R500 000.*

Statement of other comprehensive income

for the year ended 30 June 2018

R million	Group 2018 Audited	Group 2017 Audited	% change
Profit for the year	**5 735**	4 494	
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets	**37**	17	
– unrealised gains	**64**	29	
– capital gains tax on unrealised gains	**(19)**	(6)	
– realised gains transferred to profit or loss	**(10)**	(8)	
– capital gains tax on realised gains	**2**	2	
Currency translation differences	**840**	(1 575)	
– unrealised gains/(losses)	**856**	(1 581)	
– tax on unrealised (gains)/losses	**(16)**	6	
Cash flow hedges	**2**	33	
– unrealised gains	**200**	159	
– tax on unrealised gains	**(32)**	(25)	
– gains recycled to profit or loss	**(188)**	(123)	
– tax on recycled gains	**22**	22	
Share of other comprehensive income from equity-accounted investments	**42**	(58)	
– change in available-for-sale financial assets	**(9)**	(1)	
– currency translation differences	**51**	(57)	
Other comprehensive income/(losses) for the year, net of tax	**921**	(1 583)	
Total comprehensive income for the year	**6 656**	2 911	129
Attributable to:			
– ordinary shareholders	**6 573**	2 828	132
– preference shareholders	**83**	83	
– non-controlling interest	*****	*	
Total comprehensive income for the year	**6 656**	2 911	129

* *Amount is less than R500 000.*

Headline earnings

for the year ended 30 June 2018

R million	Group 2018 Audited	Group 2017 Audited	% change
Basic earnings per share (cents):			
– undiluted	**876.1**	684.2	28
– diluted	**875.6**	683.6	28
Headline earnings per share (cents):			
– undiluted	**899.6**	683.1	32
– diluted	**899.0**	682.5	32
Normalised headline earnings per share (cents):			
– undiluted	**837.4**	722.2	16
– diluted	**836.9**	721.5	16
The reconciliation between earnings and headline earnings is shown below:			
Net profit attributable to ordinary shareholders	**5 652**	4 411	28
Adjusted for:			
– gain on disposal of property and equipment net of CGT	**(3)**	(1)	
– impairment of intangible assets net of tax	**162**	–	
– realised gains on available-for-sale financial assets net of CGT	**(8)**	(6)	
Headline earnings	**5 803**	4 404	32
– accrual of dividends payable to preference shareholders	**1**	(1)	
– amortisation of intangibles from business combinations net of deferred tax	**109**	154	
– deferred tax asset raised on assessed losses	**(352)**	–	
– deferred tax timing difference related to new 'adjusted IFRS' tax basis	**(119)**	–	
– duplicate building costs	**37**	–	
– unrealised gains on foreign exchange contracts not designated as hedges	**(77)**	–	
– initial expenses related to Prudential Book transfer	**(1)**	–	
– rebranding and business acquisitions expenses	**–**	99	
Normalised headline earnings	**5 401**	4 656	16
Weighted number of shares in issue (000's)	**645 014**	644 651	
Diluted weighted number of shares (000's)	**645 408**	645 236	

Refer to 'Significant transactions affecting the current results' for details on the accounting treatment of Discovery's new head office.

Normalised operating profit per the segmental information, reflects the cash rental costs separately from the International Financial Reporting Standards (IFRS) finance lease treatment, as individual business expenses and margins are managed on underlying cash rental costs incurred by each business.

Normalised headline earnings adjusted for the impact of the accounting treatment of the new head office lease, would result in an increase of R208 million in normalised headline earnings to R5 609 million (increase of 20% compared to the prior financial year). The adjustment is calculated by replacing the depreciation of R126 million and finance charges of R210 million recognised in line with IFRS, with the actual market related rentals of R128 million.

Normalised headline earnings per share (with market related cash rentals)(cents) would be 869.5 on an undiluted basis and 869.0 on a diluted basis.

Statement of changes in equity

for the year ended 30 June 2018

R million (audited)	Share capital and share premium	Preference share capital	Share-based payment reserve
	Attributable to equity holders of the Company		
Year ended 30 June 2018			
At beginning of year	**8 306**	**779**	**314**
Total comprehensive income for the year	**–**	**83**	**–**
Profit for the year	**–**	**83**	**–**
Other comprehensive income	**–**	**–**	**–**
Transactions with owners	**2**	**(83)**	**13**
Delivery of treasury shares	**2**	**–**	**–**
Employee share option schemes:			
– Value of employee services	**–**	**–**	**13**
Dividends paid to preference shareholders	**–**	**(83)**	**–**
Dividends paid to ordinary shareholders	**–**	**–**	**–**
At end of year	**8 308**	**779**	**327**
Year ended 30 June 2017			
At beginning of year	8 300	779	319
Total comprehensive income for the year	–	83	–
Profit for the year	–	83	–
Other comprehensive income	–	–	–
Transactions with owners	6	(83)	(5)
Increase in treasury shares	(4)	–	–
Delivery of treasury shares	11	–	–
Share buy-back	(1)	–	–
Employee share option schemes:			
– Share schemes cancelled	–	–	(19)
– Value of employee services	–	–	14
Dividends paid to preference shareholders	–	(83)	–
Dividends paid to ordinary shareholders	–	–	–
At end of year	8 306	779	314

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

	Attributable to equity holders of the Company						
	Available-for-sale investments[1]	Foreign currency translation reserve	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total
	180	**(147)**	**(1)**	**22 859**	**32 290**	*****	**32 290**
	28	**891**	**2**	**5 652**	**6 656**	**–**	**6 656**
	–	**–**	**–**	**5 652**	**5 735**	**–**	**5 735**
	28	**891**	**2**	**–**	**921**	**–**	**921**
	–	**–**	**–**	**(1 284)**	**(1 352)**	**–**	**(1 352)**
	–	**–**	**–**	**–**	**2**	**–**	**2**
	–	**–**	**–**	**–**	**13**	**–**	**13**
	–	**–**	**–**	**–**	**(83)**	**–**	**(83)**
	–	**–**	**–**	**(1 284)**	**(1 284)**	**–**	**(1 284)**
	208	**744**	**1**	**27 227**	**37 594**	*****	**37 594**
	164	1 485	(34)	19 594	30 607	*	30 607
	16	(1 632)	33	4 411	2 911	–	2 911
	–	–	–	4 411	4 494	–	4 494
	16	(1 632)	33	–	(1 583)	–	(1 583)
	–	–	–	(1 146)	(1 228)	–	(1 228)
	–	–	–	–	(4)	–	(4)
	–	–	–	(11)	–	–	–
	–	–	–	1	–	–	–
	–	–	–	12	(7)	–	(7)
	–	–	–	–	14	–	14
	–	–	–	–	(83)	–	(83)
	–	–	–	(1 148)	(1 148)	–	(1 148)
	180	(147)	(1)	22 859	32 290	*	32 290

Statement of cash flows

for the year ended 30 June 2018

R million	Group 2018 Audited	Group 2017 Audited
Cash flow from operating activities	**3 414**	(832)
Cash generated by operations	**10 875**	9 672
Purchase of investments held to back policyholder liabilities	**(24 217)**	(32 104)
Proceeds from disposal of investments held to back policyholder liabilities	**16 179**	25 020
Working capital changes	**250**	(4 146)
	3 087	(1 558)
Dividends received	**252**	197
Interest received	**2 062**	1 711
Interest paid	**(759)**	(437)
Taxation paid	**(1 228)**	(745)
Cash flow from investing activities	**(2 433)**	15
Purchase of financial assets	**(23 631)**	(14 083)
Proceeds from disposal of financial assets	**23 621**	16 208
Purchase of property and equipment	**(470)**	(239)
Proceeds from disposal of property and equipment	**7**	5
Purchase of software and other intangible assets	**(1 940)**	(1 353)
Proceeds from the sale of intangible assets	**–**	7
Increase in investment in associate	**(20)**	(530)
Cash flow from financing activities	**609**	1 913
Dividends paid to ordinary shareholders	**(1 284)**	(1 152)
Dividends paid to preference shareholders	**(83)**	(83)
Increase in borrowings	**2 654**	3 514
Repayment of borrowings	**(678)**	(366)
Net increase in cash and cash equivalents	**1 590**	1 096
Cash and cash equivalents at beginning of year	**9 097**	8 614
Exchange losses on cash and cash equivalents	**201**	(613)
Cash and cash equivalents at end of year	**10 888**	9 097
Reconciliation to statement of financial position		
Cash and cash equivalents	**10 894**	9 098
Bank overdraft included in borrowings at amortised cost	**(6)**	(1)
Cash and cash equivalents at end of year	**10 888**	9 097

Additional information

at 30 June 2018

Fair value hierarchy of financial instruments

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

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

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

(a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active or

(b) valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

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

	30 June 2018			
R million (audited)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial instruments at fair value through profit or loss:				
– Equity securities	29 769	873	–	30 642
– Equity linked notes	–	211	–	211
– Debt securities	15 120	534	–	15 654
– Inflation linked securities	1 096	–	–	1 096
– Money market securities	610	5 255	–	5 865
– Mutual funds	17 778	–	–	17 778
Available-for-sale financial instruments:				
– Equity securities	166	9	–	175
– Equity linked notes	–	20	–	20
– Debt securities	840	573	–	1 413
– Inflation linked securities	2	–	–	2
– Money market securities	2 382	1 787	–	4 169
– Mutual funds	1 768	–	–	1 768
Derivative financial instruments at fair value:				
– Hedges	–	337	–	337
– Non-hedges	–	157	–	157
	69 531	9 756	–	79 287
Financial liabilities				
Derivative financial instruments at fair value:				
– Hedges	–	51	–	51
– Non-hedges	–	27	–	27
	–	78	–	78

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

Additional information *continued*

at 30 June 2018

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

Exchange rates used in the preparation of these results

	USD	GBP
30 June 2018		
– Average	**12.86**	**17.33**
– Closing	**13.81**	**18.16**
30 June 2017		
– Average	13.61	17.29
– Closing	13.12	17.03

Segmental information

for the year ended 30 June 2018

R million (audited)	SA Health	SA Life	SA Invest	SA Vitality
Income statement				
Insurance premium revenue	30	11 103	12 056	–
Reinsurance premiums	(2)	(2 141)	–	–
Net insurance premium revenue	28	8 962	12 056	–
Fee income from administration business	6 911	31	1 875	–
Vitality income	–	–	–	2 323
Investment income earned on assets backing policyholder liabilities	–	472	44	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(708)	708	–
Net fair value gains on financial assets at fair value through profit or loss	2	589	3 741	–
Net income	6 941	9 346	18 424	2 323
Claims and policyholders' benefits	(2)	(6 943)	(7 375)	–
Insurance claims recovered from reinsurers	1	1 534	–	–
Net claims and policyholders' benefits	(1)	(5 409)	(7 375)	–
Acquisition costs	(3)	(1 606)	(1 046)	(76)
Marketing and administration expenses				
– depreciation and amortisation	(305)	(8)	–	(3)
– impairment	(7)	–	–	–
– other expenses	(3 855)	(1 639)	(808)	(2 186)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 405	–	–
– change in assets arising from reinsurance contracts	–	25	–	–
– change in liabilities arising from insurance contracts	(1)	(35)	(8 031)	–
– change in liabilities arising from reinsurance contracts	–	(239)	–	–
Fair value adjustment to liabilities under investment contracts	–	(3)	(279)	–
Share of net profits from equity-accounted investments	8	–	–	–
Normalised profit/(loss) from operations	2 777	3 837	885	58
Investment income earned on shareholder investments and cash	66	39	26	30
Net fair value gains on financial assets at fair value through profit or loss	–	–	–	–
Net realised gains on available-for-sale financial assets	–	6	1	–
Initial expenses related to Prudential Book transfer	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Market rentals related to Head Office building adjusted for finance costs and depreciation	–	–	–	–
Finance costs	(41)	(9)	–	–
Foreign exchange (losses)/gains	(3)	–	(9)	–
Profit before tax	2 799	3 873	903	88
Income tax expense	(718)	(929)	(253)	(25)
Profit for the year	2 081	2 944	650	63

1 *The inter-segment funding of R708 million reflects a notional allocation of interest earned on the negative reserve backing policyholders' funds of guaranteed investment products and hence is transferred to Discovery Invest.*

				IFRS reporting adjustments			
UK Health	UK Life	All other segments	Segment total	UK Life[2]	DUT[3]	Normalised profit adjustments[4]	IFRS total
7 471	4 031	2 665	37 356	(671)	–	–	36 685
(1 165)	(1 559)	(160)	(5 027)	671	–	–	(4 356)
6 306	2 472	2 505	32 329	–	–	–	32 329
30	–	401	9 248	–	–	4	9 252
444	91	1 633	4 491	–	–	–	4 491
11	18	141	686	–	–	–	686
–	(160)	–	(160)	160	–	–	–
–	–	–	–	–	–	–	–
(1)	92	18	4 441	–	1 312	70	5 823
6 790	2 513	4 698	51 035	160	1 312	74	52 581
(4 029)	(997)	(1 590)	(20 936)	447	(225)	–	(20 714)
938	584	125	3 182	(447)	–	–	2 735
(3 091)	(413)	(1 465)	(17 754)	–	(225)	–	(17 979)
(536)	(1 887)	(280)	(5 434)	(160)	–	–	(5 594)
(238)	(18)	(242)	(814)	–	–	(126)	(940)
(193)	–	–	(200)	–	–	–	(200)
(2 849)	(1 620)	(3 163)	(16 120)	(27)	–	68	(16 079)
625	1 917	–	2 542	–	–	–	2 542
–	2 855	–	6 260	(1 119)	–	–	5 141
5	6	(1)	35	1	–	–	36
76	(10)	(49)	(8 050)	(1)	(21)	(16)	(8 088)
–	(2 828)	–	(3 067)	1 119	–	–	(1 948)
–	–	–	(282)	–	(1 066)	40	(1 308)
–	–	107	115	–	–	–	115
589	515	(395)	8 266	(27)	–	40	8 279
1	6	41	209	–	–	–	209
–	–	110	110	–	–	(110)	–
–	–	3	10	–	–	–	10
–	(2)	–	(2)	–	–	2	–
–	–	(123)	(123)	–	–	–	(123)
–	–	(208)	(208)	–	–	208	–
(1)	(2)	(713)	(766)	–	–	(193)	(959)
–	(3)	11	(4)	–	–	–	(4)
589	514	(1 274)	7 492	(27)	–	(53)	7 412
(13)	(85)	303	(1 720)	27	–	16	(1 677)
576	429	(971)	5 772	–	–	(37)	5 735

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

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

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

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

Segmental information *continued*

for the year ended 30 June 2017

R million (Audited and restated)	SA Health	SA Life	SA Invest	SA Vitality Restated[2]
Income statement				
Insurance premium revenue	16	9 993	11 515	–
Reinsurance premiums	(2)	(1 838)	–	–
Net insurance premium revenue	14	8 155	11 515	–
Fee income from administration business	6 314	26	1 677	–
Vitality income	–	–	–	2 059
Investment income earned on assets backing policyholder liabilities	–	431	38	–
Finance charge on negative reserve funding	–	–	–	–
Inter-segment funding[1]	–	(573)	573	–
Net fair value gains on financial assets at fair value through profit or loss	–	476	1 317	–
Net income	6 328	8 515	15 120	2 059
Claims and policyholders' benefits	(1)	(6 241)	(6 800)	–
Insurance claims recovered from reinsurers	1	1 365	–	–
Recapture of reinsurance	–	–	–	–
Net claims and policyholders' benefits	–	(4 876)	(6 800)	–
Acquisition costs	–	(1 565)	(1 022)	(79)
Marketing and administration expenses				
– depreciation and amortisation	(303)	(15)	–	–
– other expenses	(3 520)	(1 521)	(663)	(1 955)
Recovery of expenses from reinsurers	–	–	–	–
Transfer from assets/liabilities under insurance contracts				
– change in assets arising from insurance contracts	–	3 577	–	–
– change in assets arising from reinsurance contracts	–	(4)	–	–
– change in liabilities arising from insurance contracts	–	(124)	(5 867)	–
– change in liabilities arising from reinsurance contracts	–	(397)	–	–
Fair value adjustment to liabilities under investment contracts	–	(2)	(24)	–
Share of net profits from equity-accounted investments	–	–	–	–
Normalised profit/(loss) from operations	2 505	3 588	744	25
Investment income earned on shareholder investments and cash	55	26	21	17
Net realised gains on available-for-sale financial assets	–	1	7	–
Rebranding and business acquisitions expenses	–	–	–	–
Amortisation of intangibles from business combinations	–	–	–	–
Finance costs	(49)	(8)	–	–
Foreign exchange losses	–	–	(8)	–
Profit before tax	2 511	3 607	764	42
Income tax expense	(685)	(1 008)	(214)	(13)
Profit for the year	1 826	2 599	550	29

1 *The inter-segment funding of R573 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.*

				IFRS reporting adjustments			
UK Health	UK Life	All other segments Restated[2]	Segment total	UK Life[3]	DUT[4]	Normalised profit adjustments[5]	IFRS total
7 040	3 617	2 076	34 257	(724)	–	–	33 533
(1 335)	(1 183)	(203)	(4 561)	724	–	–	(3 837)
5 705	2 434	1 873	29 696	–	–	–	29 696
24	–	331	8 372	–	–	–	8 372
538	94	1 576	4 267	–	–	–	4 267
15	18	106	608	–	–		608
–	(43)	–	(43)	43	–	–	–
–	–	–	–	–	–	–	–
–	(109)	–	1 684	–	424	–	2 108
6 282	2 394	3 886	44 584	43	424	–	45 051
(4 376)	(740)	(1 426)	(19 584)	347	–	–	(19 237)
1 125	407	265	3 163	(347)	–	–	2 816
(858)	–	–	(858)	–	–	–	(858)
(4 109)	(333)	(1 161)	(17 279)	–	–	–	(17 279)
(574)	(1 744)	(210)	(5 194)	(43)	–	–	(5 237)
(214)	(6)	(161)	(699)	–	–	–	(699)
(2 533)	(1 431)	(2 926)	(14 549)	(103)	(202)	(99)	(14 953)
1 566	1 419	–	2 985	–	–	–	2 985
–	1 406	–	4 983	363	–	–	5 346
(111)	8	–	(107)	(2)	–	–	(109)
(25)	(14)	(35)	(6 065)	2	–	(562)	(6 625)
–	(1 214)	–	(1 611)	(363)	–	–	(1 974)
–	–	–	(26)	–	(222)	–	(248)
1	–	25	26	–	–	–	26
283	485	(582)	7 048	(103)	–	(661)	6 284
2	6	23	150	–	–	–	150
–	–	–	8	–	–	–	8
(91)	–	(8)	(99)	–	–	99	–
–	–	(171)	(171)	–	–	–	(171)
(2)	(1)	(418)	(478)	–	–	–	(478)
–	–	(13)	(21)	–	–	–	(21)
192	490	(1 169)	6 437	(103)	–	(562)	5 772
(21)	(119)	117	(1 943)	103	–	562	(1 278)
171	371	(1 052)	4 494	–	–	–	4 494

The segment information is presented on the same basis as reported to the Chief Executive Officers of the reportable segments. At each reporting date, Discovery must review whether the segments being disclosed still comply with IFRS 8 – Segment reporting. Based on this review, the following change was required:

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

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

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

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

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

Review of Group results

for the year ended 30 June 2018

New business annualised premium income

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

Core new business API increased by 10% for the year ended 30 June 2018 when compared to the prior financial year.

R million	June 2018	June 2017	% change
Discovery Health – DHMS	**5 422**	5 157	5
Discovery Health – Closed Schemes[1]	**1 151**	952	21
Discovery Life	**2 188**	2 175	1
Discovery Invest	**2 454**	2 496	(2)
Discovery Insure	**1 047**	895	17
Discovery Vitality	**162**	167	(3)
VitalityHealth	**1 107**	972	14
VitalityLife	**1 172**	1 068	10
Ping An Health[2]	**1 434**	778	84
Core new business API of Group	**16 137**	14 660	10
New Closed Schemes[1]	**96**	623	(85)
New business API of Group including new Closed Schemes	**16 233**	15 283	6
Gross revenue Vitality Group[3]	**645**	634	2
Total new business API and other new business	**16 878**	15 917	6

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

2 *Previously Ping An Health included 100% of the new business API. This has been restated to only include 25% in line with the Group's effective shareholding of 25% of this associate.*

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

Calculation of new business API

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

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

- *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.
- *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.

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

Gross inflows under management

Gross inflows under management measures the total funds collected by Discovery. Gross inflows under management increased by 9% for the year ended 30 June 2018 when compared to the prior financial year.

R million	June 2018	June 2017	% change
Discovery Health	**75 430**	68 226	11
Discovery Life	**11 134**	10 019	11
Discovery Invest	**19 901**	19 461	2
Discovery Insure	**2 694**	2 099	28
Discovery Vitality[1]	**2 323**	2 059	13
VitalityHealth	**7 945**	7 602	5
VitalityLife	**4 122**	3 711	11
All other businesses	**2 005**	1 884	6
Gross inflows under management	**125 554**	115 061	9
Less: collected on behalf of third parties	**(74 459)**	(68 165)	9
Discovery Health	**(68 489)**	(61 896)	11
Discovery Invest	**(5 970)**	(6 269)	(5)
Gross income of Group per the segmental information	**51 095**	46 896	9
Gross income is made up as follows:			
– Insurance premium revenue	**37 356**	34 257	9
– Fee income from administration business	**9 248**	8 372	10
– Vitality income	**4 491**	4 267	5
Gross income of Group per the segmental information	**51 095**	46 896	9

1 *The comparative has been restated to include the DiscoveryCard joint arrangement gross inflows under management in 'All other businesses', which was previously included in Discovery Vitality gross inflows under management. This restatement was necessary as the management control over the credit card operations in the Group has moved from Discovery Vitality to Discovery Bank and disclosed accordingly in the segmental report. The DiscoveryCard joint arrangement gross inflows amounts to R427 million (2017: R413 million).*

Normalised profit from operations

The following table shows the main components of the normalised profit from operations for the year ended 30 June 2018:

R million	June 2018	June 2017	% change
Discovery Health	**2 777**	2 505	11
Discovery Life	**3 837**	3 588	7
Discovery Invest	**885**	744	19
Discovery Vitality[1]	**58**	25	132
VitalityHealth	**589**	283	108
VitalityLife	**515**	485	6
Normalised profit from established businesses	**8 661**	7 630	14
Emerging businesses	**158**	(170)	193
– Discovery Insure	**68**	(21)	424
– Vitality Group	**90**	(149)	160
Development and other segments	**(553)**	(412)	(34)
Normalised profit from operations	**8 266**	7 048	17

1 *The comparatives have been restated to reallocate the DiscoveryCard joint arrangement and the additional 54.99% DiscoveryCard profit share from established businesses to the 'Development and other segments'. This restatement was necessary as management control over the credit card operations in the Group has moved from Discovery Vitality to Discovery Bank and disclosed accordingly in the segmental report. The Discovery Card joint arrangement and 54.99% DiscoveryCard profit share amounts to R259 million (2017: R165 million). The latter in the form of after tax dividends.*

Review of Group results *continued*

for the year ended 30 June 2018

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, which has been disclosed in 'Emerging businesses', excludes the commercial offering which is a new venture that commenced during the year under review and is shown in 'Development and other segments'.

'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, Vitality Invest which is the recently launched UK investment business, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Discovery Invest. Unallocated 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 which comprises two phases of development. The lease commenced November 2017 and March 2018 for Phase I and Phase II respectively. Discovery started taking occupancy of the buildings at those dates, on a phased approach.

IAS 17: Leases, requires a lessee to classify a lease as either a finance lease or an operating lease. 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 R3 155 million, which has been disclosed in 'Property and equipment' and a corresponding lease liability, which has been disclosed in 'Borrowings' in the Statement of financial position. 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 treatment under *IFRS 16: Leases*, effective for reporting periods commencing 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 the future accounting standard effective not yet adopted by Discovery.

The recognised asset is depreciated over the lease term, using the straight-line method. R126 million depreciation has been recognised in profit or loss for the respective periods since beneficial occupancy. Finance charges of R210 million have been recognised in profit or loss in respect of the finance lease liability. Normalised profit from operations includes the market related rental paid.

As Discovery took occupancy of the new building on a phased approach various building costs, such as rental, have been duplicated during the transitional period in the current financial year as costs were incurred on both the new and old premises. For the calculation of normalised headline earnings, duplicate rental charges of R37 million have been added back.

Borrowings at amortised cost

R million	Reference	June 2018	June 2017
Bank borrowings		**9 050**	6 774
– United Kingdom borrowings	i	**1 810**	2 174
– South African borrowings	ii	**7 240**	4 600
Redeemable preference shares		**1 402**	1 400
Finance lease liability		**3 621**	349
– New building		**3 237**	–
– Other finance lease liabilities		**384**	349
Bank overdraft		**6**	1
Total borrowings at amortised cost		**14 079**	8 524

i. United Kingdom borrowings

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

Discovery repaid GBP 15 million of this facility in previous financial periods and a further GBP 28 million of this facility during 2018, of which GBP 13 million was a voluntary prepayment. The balance owing at 30 June 2018 amounts to GBP 99.7 million (R1 810 million) (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 R40 million (2017: R50 million) in respect of these borrowings have been recognised in profit or loss.

ii. South African borrowings

R million	Reference	June 2018	June 2017
Balance at beginning of the period		**4 600**	1 620
Issuance of listed debt	a.	**1 500**	–
Draw down on existing and new facilities	b. c.	**1 154**	2 996
Repayment of borrowings	b.	**(80)**	(48)
Accrued interest		**77**	34
Raising fees capitalised		**(11)**	(2)
Balance at end of the period		**7 240**	4 600

Moody's assigned a Aa3.za issuer rating to Discovery Limited on 20 October 2017.

a. During the current financial year, Discovery registered an unsecured R10 billion Domestic Medium Term Note (DMTN) programme. In terms of this programme, Discovery issued R1.5 billion JSE Listed Notes in its inaugural issuance on 21 November 2017, 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 R73 million was repaid in terms of the agreement. Interest rates on the facility are fixed at a weighted average rate of 11.56% per annum, with capital and interest repayable in instalments over the duration of the loan facility.

c. Discovery Limited entered into a new unsecured R1 billion 5 year loan facility agreement in March 2018, which was fully drawn down in June 2018. Interest rates on this facility is linked to 3 month JIBAR, plus 245 bps. Interest is payable quarterly in arrears and capital is repayable in full at maturity on 2 March 2023. Interest rates on this facility have been fixed at 10.275% per annum, through an interest rate swap.

Finance charges of R512 million (2017: R368 million) in respect of these South African borrowings have been recognised in profit or loss.

Negative reserve funding (acquisition cost funding)

This liability represents the acquisition costs in respect of business written on the Prudential Assurance Company's (Prudential) life insurance license and were funded by Prudential. The liability is repaid on a matched basis as the cash flows emerge from this business. 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 entered into in respect of this business, a security deposit was required to be placed by the reinsurer, to reduce counterparty risk. At 30 June 2018, GBP 169 million (R3 065 million) (2017: GBP 147 million (R2 501 million)) was held 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 has been disclosed as a reduction of the negative reserve funding liability.

During the 2018 financial year, additional amounts were received as 'deposit back' in excess of the negative reserve funding. The agreements indicate that offset is applicable up to the amount of the negative reserve funding. Any additional amounts of the deposit back received thereafter, are included in cash. 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 year, relates to the partial repayment of funding by VitalityLife as well as an increase in the amount of deposit back held, which has been offset against the liability. There is still an amount payable to Prudential of GBP 120.5 million (R2 189 million) at 30 June 2018.

Consolidation of Discovery Unit Trusts

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

Assets and liabilities of the Discovery Unit Trusts increased by R7 689 million respectively compared to the prior financial year with movements in the following line items on the Group's Statement of financial position:

- Investments at fair value through profit or loss increased by R8 269 million.
- Investment contracts at fair value through profit or loss increased by R7 836 million.
- Cash and cash equivalents decreased by R617 million.
- Trade and other payables decreased by R144 million.
- Other assets increased by R37 million.
- Other liabilities decreased by R3 million.

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

Other significant items in these results

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 R5 496 million for the year ended 30 June 2018 (2017: R5 090 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 R12.3 billion 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 'Purchase of investments held to back policyholder liabilities' of R24 217 million in the Statement of cash flows.

Deferred tax

With the promulgation of the South African Insurance Act 18 of 2017, in January 2018, the new 'adjusted IFRS' tax basis, effective 1 July 2018, has been substantively enacted as at 30 June 2018. As a result, deferred tax has been calculated on this basis and reflects the values at which the tax liabilities will ultimately be settled. A reduction in the deferred tax liability of R119 million has been recognised as a timing difference, and has been adjusted for in the calculation of normalised headline earnings.

During the current year a deferred tax asset has been recognised on the assessed loss in Discovery Insure. Further amounts were raised during the current year in respect of the VitalityHealth assessed losses. These amounted to R243 million and R109 million respectively, and have been added back in the calculation of normalised headline earnings.

Taxation

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

Shareholder information

Directorate

Changes to the Board of Discovery Limited from 1 July 2017 to the date of this announcement are as follows:

- Mr R Farber relinquished his role as Chief Financial Officer and Group Financial Director of Discovery in the prior financial year and remained a director of the Board of Discovery Limited. Effective 1 April 2018, Mr R Farber was redesignated as a non-executive director.
- Mr JM Robertson has retired as executive director and Group Chief Information Officer from the Board of Discovery Limited with effect from 31 August 2018.

Dr BA Brink, Ms SE De Bruyn Sebotsa, Dr TV Maphai and Mr TT Mboweni retire by rotation at the forthcoming Annual General Meeting of shareholders and are eligible and available for re-election.

Dividend and capital

Interim dividends paid in respect of the 2018 financial year

The following interim dividends were paid during the current financial year:

- B preference share dividend of 518.15068 cents (414.52054 cents net of dividend withholding tax), paid on 12 March 2018.
- Ordinary share dividend of 101 cents per share (80.8 cents net of dividend withholding tax), paid on 19 March 2018.

Final dividend declaration in respect of the 2018 financial year

B preference share cash dividend declaration:

On 23 August 2018, the directors declared a final gross cash dividend of 501.91781 cents (401.53425 cents net of dividend withholding tax) per B preference share for the period 1 January 2018 to 30 June 2018, payable from the income reserves of the Company. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

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

The salient dates for the dividend were as follows:

Last day of trade to receive a dividend	Tuesday, 11 September 2018
Shares commence trading "ex" dividend	Wednesday, 12 September 2018
Record date	Friday, 14 September 2018
Payment date	Monday, 17 September 2018

B preference share certificates may not be dematerialised or rematerialised between Wednesday, 12 September 2018 and Friday, 14 September 2018, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 114 cents (91.2 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2018. A dividend withholding tax of 20% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 646 844 992 ordinary shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Tuesday, 2 October 2018
Shares commence trading "ex" dividend	Wednesday, 3 October 2018
Record date	Friday, 5 October 2018
Payment date	Monday, 8 October 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 3 October 2018 and Friday, 5 October 2018, both days inclusive.

Review of Group results *continued*

for the year ended 30 June 2018

Capital requirements

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 30 June.

	2018 Statutory CAR	2018 cover	2017 Statutory CAR	2017 cover
Discovery Life	**R866 million**	**3.5 times**	R705 million	3.9 times
Discovery Insure	**R630 million**	**2.0 times**	R473 million	2.2 times
Vitality Health	**GBP 87 million (R1 580 million)**	**1.4 times**	GBP 83 million (R1 420 million)	1.5 times
Vitality Life	**GBP 133 million (R2 414 million)**	**1.9 times**	GBP 87.5 million (R1 490 million)	2.1 times

Events after reporting date

Banking

As detailed in the operating commentary, subsequent to balance sheet date, Discovery and FirstRand Investment Holdings Limited (FRIHL) have agreed that it would be preferable for FRIHL to exit their shareholding in Discovery Bank as soon as practically possible.

The proposed transaction includes:

(i) the acquisition of the effective 25.01% interest of FRIHL in Discovery Bank

(ii) Acquiring the remaining 25.01% economic interest that FirstRand Bank currently owns in the Discovery Card joint venture business

(iii) Discovery Bank acquiring all rights to the Discovery card book and related assets which will be migrated over time

The transaction is subject to approval by the regulatory authorities including The Chief Executive Officer of the Prudential Authority, SARB and The Competition Authorities.

The total combined acquisition price payable by Discovery to the FirstRand Group will be R1.8 billion. Since the acquisition of the remaining 25% constitutes a new initiative and presents an important opportunity for the Discovery Group, the Board have decided that this acquisition should be funded by way of an equity issuance, limited to the purchase price. Given the relative immateriality, the transaction does not require shareholder approval.

Listed debt issue

On 29 August 2018, as part of its ongoing capital management process, Discovery Limited issued further Floating Rate Notes in terms of its Domestic Medium Term Note Programme (DMTN) totalling R700 million. Capital repayment is on maturity date being 21 August 2026. The coupon interest rate in respect of the notes is linked to 3 month JIBAR plus 180 bps, with interest payable quarterly in arrears. Interest rates on these notes have been fixed at 10.29% per annum, through interest rate swap. This brings the total nominal value in issue under the DMTN programme to R2.2 billion.

Basis of preparation

The summary consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the consolidated financial statements from which the summary consolidated financial statements were derived are in terms of International Financial Reporting Standards and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements.

Audit

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

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

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

Embedded value statement

for the year ended 30 June 2018

The embedded value of Discovery consists of the following components:

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

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

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

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

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

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

The 30 June 2018 embedded value results and disclosures were subjected to an external review.

Embedded value statement *continued*

for the year ended 30 June 2018

Table 1: Group embedded value

R million	**30 June 2018**	30 June 2017	% change
Shareholders' funds	**37 594**	32 290	16
Adjustment to shareholders' funds from published basis[1]	**(32 261)**	(27 558)	
Adjusted net worth[2]	**5 333**	4 732	
Value of in-force covered business before cost of required capital	**62 702**	54 756	
Cost of required capital	**(2 411)**	(2 194)	
Discovery Limited embedded value	**65 624**	57 294	15
Number of shares (millions)	**645.1**	645.0	
Embedded value per share	**R101.73**	R88.83	15
Diluted number of shares (millions)	**646.2**	646.2	
Diluted embedded value per share[3]	**R101.56**	R88.67	15

1 A breakdown of the adjustment to shareholders' funds is shown in the table below. An additional adjustment has been included as at 30 June 2018 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 R18.16/GBP (June 2017: R17.03/GBP):

R million	*30 June 2018*	*30 June 2017*
Life net assets under insurance contracts	*(21 479)*	*(18 354)*
Vitality Life Limited and Discovery funded VitalityLife business on the Prudential licence net assets under insurance contracts	*(4 834)*	*(3 620)*
VitalityHealth financial reinsurance asset	*(1 898)*	*(1 440)*
VitalityHealth and VitalityHealth Insurance Limited deferred acquisition costs (net of deferred tax)	*(331)*	*(252)*
VitalityLife receivable relating to the Unemployment Cover benefit (net of deferred tax)	*(27)*	*(27)*
Goodwill and intangible assets (net of deferred tax) relating to the acquisition of Standard Life Healthcare and the Prudential joint venture	*(3 121)*	*(3 086)*
Net preference share capital	*(779)*	*(779)*
Reversal of 1 Discovery Place IAS 17 financial lease accounting	*208*	*–*
	(32 261)	*(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	*30 June 2018*	*30 June 2017*
Shareholders' funds	*37 594*	*32 290*
Adjustment to shareholders' funds	*(32 261)*	*(27 558)*
Adjusted net worth	*5 333*	*4 732*
Excess of available regulatory capital over adjusted net worth	*5 411*	*4 100*
Available regulatory capital	*10 744*	*8 832*
Regulatory required capital	*5 691*	*4 477*
Required capital buffer	*3 224*	*2 664*
Required capital	*8 915*	*7 141*
Excess available capital	*1 829*	*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 30 June 2018, 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 June 2018 for Life is R1 732 million (June 2017: R1 409 million), for Health and Vitality is R840 million (June 2017: R797 million), for VitalityHealth is R2 133 million (June 2017: R1 984 million) and for VitalityLife is R4 210 million (June 2017: R2 951 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.

Table 2: Value of in-force covered business

R million	Value before cost of required capital	Cost of required capital	Value after cost of required capital
at 30 June 2018			
Health and Vitality	**21 046**	**(380)**	**20 666**
Life and Invest[1]	**28 066**	**(909)**	**27 157**
VitalityHealth[2]	**7 057**	**(336)**	**6 721**
VitalityLife[2]	**6 533**	**(786)**	**5 747**
Total	**62 702**	**(2 411)**	**60 291**
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 317 million (June 2017: R1 153 million) in respect of investment management services provided on off balance sheet investment business. The net assets of the investment service provider are included in the adjusted net worth.*

2 *The value of in-force has been converted using the closing exchange rate of R18.16/GBP (June 2017: R17.03/GBP).*

Table 3: Group embedded value earnings

R million	Year ended 30 June 2018	Year ended 30 June 2017
Embedded value at end of period	**65 624**	57 294
Less: Embedded value at beginning of period	**(57 294)**	(53 080)
Increase in embedded value	**8 330**	4 214
Net change in capital[1]	**(2)**	4
Dividends paid	**1 367**	1 231
Transfer to hedging reserve	**3**	(29)
Employee share option schemes	**(13)**	(7)
Embedded value earnings	**9 685**	5 413
Annualised return on opening embedded value	**16.9%**	10.2%

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

Embedded value statement *continued*

for the year ended 30 June 2018

Table 4: Components of Group embedded value earnings

R million	Net worth	Cost of required capital	Value of in-force covered business	**Embedded value**	Embedded value
	Year ended 30 June 2018				Year ended 30 June 2017
Total profit from new business (at point of sale)	(4 151)	(205)	7 182	**2 826**	2 437
Profit from existing business					
• Expected return	5 450	(39)	544	**5 955**	5 220
• Change in methodology and assumptions[1]	1 025	141	(379)	**787**	858
• Experience variances	580	(45)	(230)	**305**	66
Impairment, amortisation and fair value adjustment[2]	(54)	–	–	**(54)**	(95)
Increase in goodwill and intangibles	(246)	–	–	**(246)**	(203)
Other initiative costs[3]	(308)	–	23	**(285)**	(691)
Non-recurring expenses[4]	(30)	–	–	**(30)**	(103)
Acquisition costs[5]	(124)	–	2	**(122)**	(196)
Finance costs	(714)	–	–	**(714)**	(500)
Foreign exchange rate movements	272	(70)	814	**1 016**	(1 569)
Other[6]	(6)	1	(10)	**(15)**	4
Return on shareholders' funds[7]	262	–	–	**262**	185
Embedded value earnings	1 956	(217)	7 946	**9 685**	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 includes costs of start-up businesses and expenses incurred to investigate new products and markets. Start-up costs include costs in relation to the Discovery Bank, the recently launched UK investment business, Vitality Invest, a commercial offering in Discovery Insure, and an Umbrella Fund offering in Discovery Invest. Head office costs which relate to non-covered business are also included in this item.*

4 *This item includes once-off costs relating to 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 not deducted from the value of new business.*

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

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

Table 5: Experience variances

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Renewal expenses	210	–	46	(7)	(17)	–	15	–	**247**
Lapses and surrenders	18	226	(176)	254	–	(191)	(141)	(68)	**(78)**
Mortality and morbidity[1]	–	–	57	(21)	673	–	27	–	**736**
Policy alterations	–	60	(473)	399	–	–	(21)	(32)	**(67)**
Premium and fee income[2]	(26)	(691)	(34)	11	–	–	8	11	**(721)**
Economic assumptions	–	–	10	(383)	–	–	–	–	**(373)**
Commission	–	–	–	–	(95)	–	–	–	**(95)**
Tax[3]	76	–	230	(267)	172	–	99	–	**310**
Reinsurance	–	–	–	–	(43)	–	46	(4)	**(1)**
Maintain modelling term[4]	–	304	–	77	–	9	–	–	**390**
Vitality benefits	(14)	–	–	–	–	–	–	–	**(14)**
Other	52	(1)	(111)	98	(22)	–	14	(59)	**(29)**
Total	316	(102)	(451)	161	668	(182)	47	(152)	**305**

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.*

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 30 June 2018 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 twelve months.*

Table 6: Methodology and assumption changes

R million	Health and Vitality Net worth	Health and Vitality Value of in-force	Life and Invest Net worth	Life and Invest Value of in-force	VitalityHealth Net worth	VitalityHealth Value of in-force	VitalityLife Net worth	VitalityLife Value of in-force	Total
Modelling changes[1]	–	–	(279)	(610)	–	343	(68)	(101)	**(715)**
Expenses[2]	–	726	(19)	(118)	–	–	75	17	**681**
Lapses[3]	–	–	316	(1 744)	–	–	(16)	(59)	**(1 503)**
Mortality and morbidity	–	–	–	–	–	–	–	–	**–**
Benefit enhancements	–	–	(20)	(21)	–	–	–	–	**(41)**
Vitality benefits	–	–	–	–	–	–	–	–	**–**
Tax	–	–	–	38	–	–	–	3	**41**
Economic assumptions[4]	–	798	(651)	2 127	–	(23)	232	245	**2 728**
Premium and fee income	–	(317)	–	–	–	–	(1)	(64)	**(382)**
Reinsurance[5]	–	–	1 746	(1 772)	(18)	(33)	–	–	**(77)**
Other[6]	–	–	(53)	62	–	–	(219)	265	**55**
Total	–	1 207	1 040	(2 038)	(18)	287	3	306	**787**

1 *For Life and Invest, the modelling change item includes a change to the projection term limit of the value of in-force from valuing shareholder cash flows over their full term to a shorter 40 year projection term. VitalityHealth changed their methodology to calculate the value in-force from 30 June 2018. Under the new methodology, the value in-force at the valuation date is derived as the in-force written premium multiplied by the Margin multiplied by the Annuity Factor. The assumptions for the Margin and Annuity Factor are shown in Table 8.*

2 *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.*

3 *An increase was made to the Life lapse rate as a proxy for the impact of net policy alterations.*

4 *The South African investment return assumptions for Life, Invest, Health and Vitality were changed from being applied in the model as a single interest rate to the full yield curve. Consistent with this, the real yield assumption was set relative to the observed real yield curve, adjusted to remove volatility due to the nature of the index linked government bond market. VitalityLife have adopted a passive investment return and real yield assumption, with the assumptions remaining fixed unless market conditions depart significantly from the assumptions at the financial year end.*

5 *For Life the reinsurance item primarily relates to the impact of the financing reinsurance arrangements.*

6 *For VitalityLife, the other item relates to the margin reset to offset acquisition costs and assumption and methodology changes, as per the accounting policy, and an alignment of the compulsory margins in VitalityLife to those used by Life.*

Embedded value statement *continued*

for the year ended 30 June 2018

Table 7: Embedded value of new business

R million	Year ended 30 June 2018	30 June 2017	% change
Health and Vitality			
Present value of future profits from new business at point of sale	**985**	820	
Cost of required capital	**(29)**	(31)	
Present value of future profits from new business at point of sale after cost of required capital	**956**	789	21
New business annualised premium income[1]	**4 086**	4 533	(10)
Life and Invest			
Present value of future profits from new business at point of sale[2]	**1 376**	1 304	
Cost of required capital	**(74)**	(73)	
Present value of future profits from new business at point of sale after cost of required capital	**1 302**	1 231	6
New business annualised premium income[3]	**2 773**	2 840	(2)
Annualised profit margin[4]	**5.6%**	5.5%	
Annualised profit margin excluding Invest business	**10.7%**	10.2%	
VitalityHealth[5]			
Present value of future profits from new business at point of sale	**263**	157	
Cost of required capital	**(44)**	(46)	
Present value of future profits from new business at point of sale after cost of required capital	**219**	111	97
New business annualised premium income (Rand)[6]	**1 161**	958	21
Annualised profit margin[4]	**3.1%**	1.8%	
VitalityLife[7]			
Present value of future profits from new business at point of sale	**407**	432	
Cost of required capital	**(58)**	(126)	
Present value of future profits from new business at point of sale after cost of required capital	**349**	306	14
New business annualised premium income (Rand)	**898**	844	6
Annualised profit margin[4]	**5.4%**	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 30 June 2018.

The total Health and Vitality new business annualised premium income written over the period was R6 735 million (June 2017: R6 276 million).

2 Included in the Life and Invest embedded value of new business is R110 million (June 2017: R109 million) in respect of investment management services provided on off balance sheet investment business.

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

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

The new business annualised premium income of R2 773 million (June 2017: R2 840 million) (single premium APE: R1 195 million (June 2017: R1 169 million)) shown above excludes automatic premium increases and servicing increases in respect of existing business. The total new business annualised premium income written over the period, including automatic premium increases of R1 254 million (June 2017: R1 172 million) and servicing increases of R615 million (June 2017: R659 million), was R4 642 million (June 2017: R4 671 million) (single premium APE: R1 248 million (June 2017: R1 277 million)). Single premium business is included at 10% of the value of the single premium.

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

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

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

6 VitalityHealth new business is defined as individuals and employer groups which incepted during the reporting period. The new business annualised premium income shown above has been adjusted to exclude premiums in respect of members who join an existing employer group after the first month, as well as premiums in respect of new business written during the period but only activated after 30 June 2018.

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

Basis of preparation

Table 8: Embedded value economic assumptions

		30 June 2018	30 June 2017
Beta coefficient		**0.75**	0.75
Equity risk premium (%)		**3.5**	3.5
Risk discount rate (%)			
Health and Vitality[1]		**12.155**	12.125
Life and Invest[1]		**12.875**	12.875
VitalityHealth		**4.02**	3.90
VitalityLife		**4.725**	4.755
Rand/GB Pound exchange rate			
Closing		**18.16**	17.03
Average		**17.33**	17.29
Margin over Expense inflation to derive Medical inflation (%)			
South Africa		**3.00**	3.00
Expense inflation (%)			
South Africa[2]	– Health and Vitality	**6.85**	6.25
	– Life and Invest	**7.48**	6.25
United Kingdom		**3.30**	3.25
Pre-tax investment return (%)			
South Africa	– Cash[1]	**8.75**	8.75
	– Life and Invest bonds[3]	**10.25**	10.25
	– Health and Vitality bonds[3]	**9.53**	9.50
	– Equity[1]	**13.75**	13.75
United Kingdom	– VitalityHealth investment return	**1.40**	1.28
	– VitalityLife investment return	**2.50**	2.13
Income tax rate (%)			
South Africa		**28**	28
United Kingdom – long term[4]		**17**	17
VitalityHealth Assumptions			
– Margin (net of tax and cost of capital) (%)		**14.1**	–
– Annuity Factor		**6.00**	–
Projection term			
– Health and Vitality		**20 years**	20 years
– Discovery Life – ViF		**40 years**	No cap
– Group Life		**10 years**	10 years
– VitalityLife		**No cap**	No cap
– VitalityHealth[5]		**20 years**	20 years

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

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

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

4 The United Kingdom Corporation tax rate assumed is 20% in 2017, 19% in 2018 to 2020, and 17% beyond that.

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

Embedded value statement *continued*

for the year ended 30 June 2018

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

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

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

The VitalityHealth assumptions were derived from internal experience.

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

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

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

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

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

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

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

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

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, and VitalityHealth required capital amounts will be fully backed by cash. Vitality Life Limited and the VitalityLife business on the Prudential licence required capital amount is assumed to earn the same return as the assets backing the VitalityLife policyholder liabilities. 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, and VitalityHealth cost of required capital is calculated using the difference between the risk discount rate and the net of tax cash return. Vitality Life Limited and 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.

Embedded value statement *continued*

for the year ended 30 June 2018

Sensitivity to the embedded value assumptions

The risk discount rate uses the CAPM approach with specific reference to the Discovery beta coefficient. As beta values reflect the historic performance of share prices relative to the market they may not allow fully for non-market related and non-financial risk. Investors may want to form their own view on an appropriate allowance for these risks which have not been modelled explicitly. The sensitivity of the embedded value and the embedded value of new business at 30 June 2018 to changes in the risk discount rate is included in the tables below.

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

Table 9: Embedded value sensitivity

R million	Adjusted net worth[2]	Health and Vitality Value of in-force	Health and Vitality Cost of required capital
Base	5 333	21 046	(380)
Impact of:			
Risk discount rate +1%	5 333	19 790	(413)
Risk discount rate -1%	5 333	22 442	(342)
Lapses -10%	5 191	21 775	(398)
Interest rates -1%[1]	4 295	20 981	(365)
Equity and property market value -10%	5 267	21 046	(380)
Equity and property return +1%	5 333	21 046	(380)
Renewal expenses -10%	5 408	23 071	(352)
Mortality and morbidity -5%	5 508	21 045	(380)
Projection term +1 year	5 333	21 379	(385)

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	985	(29)
Impact of:		
Risk discount rate +1%	921	(32)
Risk discount rate -1%	1 092	(26)
Lapses -10%	1 064	(31)
Interest rates -1%[1]	1 010	(28)
Equity and property return +1%	985	(29)
Renewal expenses -10%	1 137	(28)
Mortality and morbidity -5%	985	(29)
Projection term +1 year	1 023	(30)
Acquisition costs -10%	1 010	(29)

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
28 066	(909)	7 057	(336)	6 533	(786)	**65 624**	
25 316	(811)	6 648	(316)	6 156	(939)	**60 764**	(7)
31 357	(1 028)	7 507	(357)	6 965	(572)	**71 305**	9
30 240	(976)	7 942	(377)	6 936	(554)	**69 779**	6
28 469	(956)	7 582	(357)	6 290	(1 266)	**64 673**	(1)
27 740	(909)	7 057	(336)	6 533	(786)	**65 232**	(1)
28 384	(909)	7 057	(336)	6 533	(786)	**65 942**	–
28 460	(907)	7 558	(336)	6 594	(743)	**68 753**	5
29 861	(893)	8 094	(336)	6 645	(769)	**68 776**	5
28 252	(914)	7 110	(338)	6 533	(786)	**66 184**	1

Life and Invest		VitalityHealth		VitalityLife			
Value of new business	Cost of required capital	Value of new business	Cost of required capital	Value of new business	Cost of required capital	**Value of new business**	% change
1 376	(74)	263	(44)	407	(58)	**2 826**	
1 109	(66)	210	(46)	297	(64)	**2 329**	(18)
1 691	(84)	323	(51)	532	(45)	**3 432**	21
1 647	(79)	385	(54)	558	(71)	**3 419**	21
1 449	(78)	317	(51)	331	(82)	**2 868**	1
1 418	(74)	263	(44)	407	(58)	**2 868**	1
1 422	(74)	330	(44)	427	(54)	**3 116**	10
1 505	(73)	411	(44)	443	(54)	**3 144**	11
1 393	(74)	271	(49)	407	(58)	**2 883**	2
1 516	(74)	306	(44)	459	(58)	**3 086**	9

Five-year review

for the year ended 30 June

	Group 2014	Group 2015	Group 2016	Group 2017	**Group 2018**	Compound growth %
Total new business API and other new business (R million)[1]	11 283	16 834	15 207	15 917	**16 878**	11
Gross inflows under management (R million)						
Gross inflows under management	78 013	89 483	104 409	115 061	**125 554**	13
Less: Collected on behalf of third parties	(46 002)	(51 587)	(59 014)	(68 165)	**(74 459)**	13
Gross income of Group	32 011	37 896	45 395	46 896	**51 095**	12
Income statement extracts (R million)						
Profit from operations	5 058	5 229	5 803	6 245	**8 260**	13
Headline earnings	3 064	5 285	3 641	4 404	**5 803**	17
Abnormal expenses/(income)	393	(1 258)	671	252	**(402)**	
Normalised headline earnings	3 457	4 027	4 312	4 656	**5 401**	12
Diluted normalised headline earnings per share (cents)	580.2	663.0	671.1	721.5	**836.9**	10
Statement of financial position extracts (R million)						
Total assets	77 241	95 880	118 577	130 923	**157 982**	20
Shareholders' funds	17 411	27 356	30 607	32 290	**37 594**	21
Embedded value						
Embedded value (R million)	43 050	52 295	53 080	57 294	**65 624**	11
Diluted embedded value per share (R)	74.13	82.29	82.17	88.67	**101.56**	8
Key ratios						
Return on average equity (%)	21	25	13	14	**16**	
Return on average assets (%)	5	6	3	4	**4**	
Exchange rates						
Rand/US$						
– Closing	10.63	12.18	14.73	13.12	**13.81**	
– Average	10.43	11.49	14.60	13.61	**12.86**	
Rand/GBP						
– Closing	18.17	19.19	19.78	17.03	**18.16**	
– Average	17.06	18.04	21.44	17.29	**17.33**	
Share statistics						
Number of ordinary shares in issue						
– Weighted average (000's)	581 123	598 946	637 608	644 651	**645 014**	
– Diluted weighted average (000's)	595 699	607 290	642 534	645 236	**645 408**	
– End of period (000's)	591 872	647 428	647 428	646 845	**646 845**	
Price/diluted headline earnings (times)	16.7	19.1	18.3	17.7	**17.6**	
Share price (cents per share):						
– High	9 831	14 195	15 467	13 748	**19 000**	
– Low	7 110	9 050	11 000	10 910	**12 719**	
– Closing	9 715	12 647	12 250	12 792	**14 750**	
Market capitalisation (R million)	57 500	81 880	79 310	82 744	**95 410**	

1 *New business API has been restated to only include 25% of Ping An Health's new business API in line with the Group's effective shareholding of this associate.*

Shareholder analysis

	Number of shareholders	%	Number of shares	%
Shareholder spread				
1 – 1 000 shares	29 149	78.89	7 518 381	1.16
1 001 – 10 000 shares	6 525	17.66	18 030 981	2.79
10 001 – 100 000 shares	1 001	2.71	29 141 934	4.50
100 001 – 1 000 000 shares	195	0.53	62 394 548	9.65
1 000 001 shares and over	79	0.21	529 759 148	81.90
	36 949	**100.00**	**646 844 992**	**100.00**
Distribution of shares				
Black Economic Empowerment			35 992 733	5.56
Charity			1 074 786	0.17
Corporate holding			161 944 576	25.04
Custodians			5 864 481	0.91
Exchange-traded fund			8 354 706	1.29
Foreign government			284 808	0.04
Hedge fund			920 032	0.14
Insurance companies			9 034 273	1.40
Investment trusts			2 440 617	0.38
Local authority			367 097	0.06
Medical Aid Scheme			52 478	0.01
Other managed funds			18 040 547	2.79
Pension funds			98 700 098	15.26
Private investor			115 436 572	17.85
Sovereign wealth			27 934 625	4.32
Trading position			23 793 210	3.68
Unit trusts and mutual funds			136 271 392	21.07
University			142 075	0.02
Venture capital			195 816	0.03
			646 844 922	**100.00**
Public/non-public shareholders				
Non-public shareholders	**27**	**0.08**	**343 403 125**	**53.09**
– Directors of the Company	16	0.04	91 954 180	14.22
– Empowerment	6	0.02	35 992 733	5.56
– Own holdings	1	0.00	680 268	0.11
– Key management personnel	2	0.01	907 842	0.14
Strategic holdings (more than 5%)	2	0.01	213 868 102	33.06
Public shareholders	**36 922**	**99.92**	**303 441 867**	**46.91**
	36 949	**100.00**	**646 844 992**	**100.00**

	Number of shares	%
Beneficial shareholders' holding of 5% or more		
Rand Merchant Insurance Holdings Limited	161 944 576	25.04
Government Employees Pension Fund	51 923 526	8.03
A Gore	49 618 784	6.93

Share capital and share premium (audited)

Ordinary share capital and share premium

R million	Issued		Treasury shares			
	Share capital	Share premium	Discovery Health	BEE share trust	BEE transaction partners	Total outstanding
At 1 July 2016	1	8 378	(14)	(56)	(9)	8 300
Share movements:						
– treasury shares delivered	–	–	–	–	11	11
– treasury shares purchased	–	(1)	–	(2)	(2)	(5)
At 30 June 2017	**1**	**8 377**	**(14)**	**(58)**	**–**	**8 306**
Share movements:						
– treasury shares delivered	**–**	**2**	**–**	**–**	**–**	**2**
At 30 June 2018	**1**	**8 379**	**(14)**	**(58)**	**–**	**8 308**

Number of shares		Treasury shares			
	Issued	Discovery Health	BEE share trust	BEE transaction partners	Total outstanding
At 1 July 2016	647 427 946	(680 268)	(1 324 112)	(1 200 554)	644 223 012
Share movements:					
– cancelled from issue	(582 954)	–	–	–	(582 954)
– treasury shares delivered	–	–	138 408	1 200 554	1 338 962
– treasury share purchased	–	–	(20 000)	–	(20 000)
At 30 June 2017	**646 844 992**	**(680 268)**	**(1 205 704)**	**–**	**644 959 020**
Share movements:					
– treasury shares delivered	**–**	**–**	**98 962**	**–**	**98 962**
At 30 June 2018	**646 844 992**	**(680 268)**	**(1 106 742)**	**–**	**645 057 982**

The total authorised number of ordinary shares is 1 billion (2017: 1 billion), with a par value of 0.1 cent per share.

Expiry of BEE transaction in the prior year

In December 2005, Discovery concluded a BEE transaction pursuant to which 38 725 909 shares were issued to a consortium of BEE parties.

- 1 106 455 of these shares were issued to the Maphai SPV being one of the BEE consortium members for an initial period of 11 years (initial period). The shares were issued at R0.001 each, with a subscription consideration of R1.72 per share.

The difference between the market value of the ordinary shares issued to the BEE parties and the subscription consideration, represented an outstanding funded amount provided by Discovery shareholders (funded amount). These shares were treated as treasury shares.

The BEE parties committed to utilise any dividend or capital distributions made by Discovery to acquire additional Discovery shares in the market within three months of the date of any distributions. These additional shares were also treated as treasury shares.

At the end of the initial period,

- Discovery had the right to repurchase such number of ordinary shares at R0.001 per share that would provide Discovery with a notional return of the funded amount.
- In order for the BEE Partners to retain the full number of Discovery shares originally issued to them, the BEE Partners then had the right to simultaneously acquire from Discovery, at the then thirty-day volume-weighted average price per Discovery share, the same number of shares repurchased by Discovery.

The initial period of The Maphai SPV transaction expired in December 2016 and resulted in the following:

- Discovery repurchased 582 954 Discovery shares held by the Maphai SPV at a price of R0.001 per Discovery share.
- The Maphai SPV chose not to exercise their right to acquire the shares repurchased by Discovery. These shares have been cancelled from issue.

As a result of this transaction, treasury shares decreased by 1 200 554 shares, representing shares funded through this transaction as well additional shares purchased by the Maphai SPV utilising dividend distributions. The delivery of treasury shares purchased by the Maphai SPV using dividend distributions received in the past, resulted in an increase in Share Premium of R11 million.

All amounts funded in terms of the September 2005 BEE transaction have now been repaid.

Preference share capital

R million	Group 2018	Group 2017
Authorised		
40 000 000 A no par value preference shares 20 000 000 B preference shares of R100 each 20 000 000 C no par value preference shares	**2 000**	2 000
	2 000	2 000
Issued		
8 000 000 B preference shares of R100 each	**800**	800
Share issue costs	**(21)**	(21)
At 30 June	**779**	779

The B preference shares are non-compulsory, non-cumulative, non-participating, non-convertible, voluntarily redeemable preference shares and were issued at a coupon rate of 85% of prime rate. With the introduction of dividend withholding tax on 1 April 2012, the coupon rate on the preference shares was increased to 100% of the prime rate.

Notice of the annual general meeting

for the year ended 30 June 2018

DISCOVERY LIMITED

(Registration number: 1999/007789/06)
ISIN: ZAE000022331
Ordinary share code: DSY
Preference share code: DSBP
ISIN: ZAE000158564
("the Company")

Notice is hereby given in terms of section 62(1) of the Companies Act No. 71 of 2008 as amended ("Companies Act") that the nineteenth Annual General Meeting ("AGM") of the Company will be held in the Auditorium, Ground Floor, 1 Discovery Place, on Monday, 26 November 2018 at 12h00 to – (i) consider and, if deemed fit to pass, with or without modification, the resolutions set out below; and (ii) deal with such other business as may be dealt with at the AGM.

The Board of Directors of the Company ("Board") has determined, in accordance with section 59(1)(a) and (b) of the Companies Act, that the record date for the purpose of determining which shareholders of the Company are entitled to receive notice of the AGM is Friday, 19 October 2018 and only shareholders of the Company who are registered in the securities register of the Company on Friday, 16 November 2018 will be entitled to participate in and vote at the AGM. Therefore, the last day to trade in the Company's shares in order to be recorded on the securities register of the Company in order to be able to attend, participate in and vote at the AGM is Tuesday, 13 November 2018.

In terms of clause 13.13 of the Company's Memorandum of Incorporation ("MOI"), holders of B Preference Shares (as that term is defined in the MOI) shall be entitled to receive notice of, and to be present either in person or by proxy, at the AGM, but they shall not be entitled to vote thereat. In terms of clause 12.7 and clause 14.5 of the MOI, the holders of the A Preference Shares and the C Preference Shares (as those terms are defined in the MOI) respectively shall neither be entitled to attend the AGM nor be entitled to vote, in person or by proxy, at any such meeting.

The Integrated Annual Report and the audited Annual Financial Statements for the year ended 30 June 2018, can be accessed on the Company website: **www.discovery.co.za** from 29 October 2018.

ELECTRONIC PARTICIPATION IN THE AGM

Please note that the Company intends to make provision for shareholders of the Company, or their proxies, to participate in the AGM by way of electronic communication as provided for in terms of the MOI and section 63(2) of the Companies Act. In this regard, shareholders or their proxies may participate in the AGM by way of a teleconference call and, if they wish to do so:

- Must contact the Company Secretary (by email at the address thysb@discovery.co.za) no later than 12h00 on Thursday, 22 November 2018 in order to obtain dial-in details for that conference call; and
- Will be required to provide reasonably satisfactory identification. Forms of identification include a green bar-coded identification document or identification card issued by the South African Department of Home Affairs, a driver's licence or a valid passport.

Please note that the costs of the electronic communication described above will be for the account of the Company.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own-name" registration are entitled to attend and vote at the AGM. Any such shareholder is entitled to appoint one or more proxy or proxies to attend, participate in and speak and vote at the AGM in his/her/its stead. A proxy does not have to be a shareholder of the Company.

Kindly note that, meeting participants (including proxies) are required in terms of section 63(1) of the Companies Act to provide reasonably satisfactory identification before being entitled to attend or participate in the AGM. Forms of identification include a green bar-coded identification document or identification card issued by the South African Department of Home Affairs, a driver's licence or a valid passport.

This notice of the AGM includes the attached proxy form and the shareholder's attention is directed to the additional notes and instructions on the back of the form of proxy.

ORDINARY RESOLUTIONS

1. Ordinary Resolution Number 1

Consideration of Annual Financial Statements

Resolved that the audited Annual Financial Statements, including the Directors' Report, Auditor's Report and the Report by the Audit Committee of the Company and all of its subsidiaries ("Group") for the year ended 30 June 2018 are accepted.

Additional information in respect of Ordinary Resolution Number 1

The complete audited Annual Financial Statements, including the Directors' Report, Auditor's Report and the Report by the Audit Committee, of the Company and the Group for the year ended 30 June 2018, are available on the Company website, **www.discovery.co.za** and the summarised Audited Consolidated Financial Statements are included in the Integrated Annual Report.

2. Ordinary Resolution Number 2

Re-appointment of External Auditor

Resolved that PricewaterhouseCoopers Inc. is re-appointed, as the independent external auditor of the Company, as nominated by the Company's Audit Committee, until the conclusion of the next AGM. It is noted that Mr Jorge Goncalves is the individual registered auditor who will undertake the audit for the financial year ending 30 June 2019.

Additional information in respect of Ordinary Resolution Number 2

In accordance with section 90 of the Companies Act, PricewaterhouseCoopers Inc. is proposed to be re-appointed as the external auditors of the Company, as nominated by the Company's Audit Committee, until the conclusion of the Company's next AGM.

3. Ordinary Resolution Number 3 (comprising Ordinary Resolutions Number 3.1 to 3.3 (inclusive))

Election of independent Audit Committee

Resolved that by way of separate ordinary resolutions each of –

3.1 Mr Les Owen, who is an independent non-executive director of the Company, be and is hereby re-elected as a member and the chairperson of the Company's Audit Committee for the financial year ending 30 June 2019.

3.2 Ms Sindi Zilwa, who is an independent non-executive director of the Company, be and is hereby re-elected as a member of the Company's Audit Committee for the financial year ending 30 June 2019.

3.3 Ms Sonja De Bruyn Sebotsa, who is an independent non-executive director of the Company, be and is hereby re-elected as a member of the Company's Audit Committee for the financial year ending 30 June 2019, subject to the passing of Ordinary Resolution 4.3 – Re-election as a non-executive director of the Company.

Additional information in respect of Ordinary Resolution Number 3.1 to 3.3

In terms of section 94(2) of the Companies Act, the Audit Committee is a committee elected by shareholders at each AGM. A brief CV of each of the independent non-executive directors mentioned above appear on pages 120 to 127. In terms of the Regulations promulgated under and in terms of the Companies Act ("Companies Act Regulations"), at least one-third of the members of the Company's Audit Committee must have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. The Board is satisfied that the Company's Audit Committee members are suitably skilled, experienced as contemplated in Regulation 42 of the Companies Act Regulations and collectively they have the sufficient qualifications and experience to fulfil their duties as contemplated in section 94(7) of the Companies Act.

4. Ordinary Resolution Number 4

Re-election of Directors

Ordinary Resolution Number 4 (comprising Ordinary Resolutions Number 4.1. to 4.3 (inclusive))

Dr Brian Brink, Dr Vincent Maphai and Ms Sonja De Bruyn Sebotsa all retire in accordance with clause 41.3 of the MOI and, being eligible, offer themselves for re-election.

Shareholders are requested to consider and, if deemed fit, to re-elect Dr Brian Brink, Dr Vincent Maphai and Ms Sonja De Bruyn Sebotsa as directors appointed to the Board.

By way of a separate ordinary resolution, it is:

4.1 Resolved that Dr Brian Brink who retires in terms of clause 41.3 of the MOI and who, being eligible, offers himself for re-election, be and is hereby re-elected as an independent non-executive director of the Company.

4.2 Resolved that Dr Vincent Maphai who retires in terms of clause 41.3 of the MOI and who, being eligible, offers himself for re-election, be and is hereby re-elected as an independent non-executive director of the Company.

4.3 Resolved that Ms Sonja De Bruyn Sebotsa who retires in terms of clause 41.3 of the MOI and who, being eligible, offers herself for re-election, be and is hereby re-elected as a non-executive director of the Company.

Additional information in respect of Ordinary Resolutions Number 4.1 to 4.3

Clause 41.3 provides that one third of the Company's directors shall retire at every AGM. Therefore, the reason for the proposed Ordinary Resolutions Number 4.1 to 4.3 (inclusive) is to elect, in accordance with the MOI and by way of a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy, as required by section 68(1) of the Companies Act, Dr Brian Brink, Dr Vincent Maphai and Ms Sonja De Bruyn Sebotsa as directors of the Company. The effect of Ordinary Resolutions 4.1 to 4.3 (inclusive) is that Dr Brian Brink, Dr Vincent Maphai and Ms Sonja De Bruyn Sebotsa will be elected as directors of the Company. A brief CV of each of the directors mentioned above appears on pages 120 to 127.

5. Ordinary Resolution Number 5

Advisory endorsement of the remuneration policy

5.1 "Resolved that to endorse, through a non-binding advisory vote, the Company's remuneration policy (excluding the remuneration of the non-executive directors for their services as directors and members or statutory committees), as set out in the Remuneration Report contained in the Integrated Annual Report."

5.2 "Resolved that to endorse, through a non-binding advisory vote, the Company's implementation report, as set out in the Integrated Annual Report"

Additional information in respect of Ordinary Resolution Number 5

In terms of King IV, shareholders of the Company are provided with an opportunity to pass non-binding advisory votes on the remuneration policy and the implementation report. The vote allows shareholders to express their views on the remuneration policies adopted and the implementation thereof, but will not be binding on the Company.

Furthermore, King IV recommends the remuneration policy should record the measures that the Board commits to in the event that either the remuneration policy or the implementation report, or both have been voted against by 25% (twenty-five percent) or more of the voting rights exercised by the shareholders.

6. Ordinary Resolution Number 6

Authority to implement special and Ordinary Resolutions

Resolved that any director of the Company or the Company Secretary of the Company be and is hereby authorised to do all such things, sign all such documents and take all such actions as may be necessary for or incidental to the implementation of the ordinary and special resolutions to be proposed at the AGM.

Additional information in respect of Ordinary Resolution Number 6

The reason for Ordinary Resolution Number 6 is to authorise any director or the Company Secretary of the Company to attend to the necessary to implement the special and ordinary resolutions passed at the AGM and to sign all documentation required to record the special and ordinary resolutions. The effect of Ordinary Resolution Number 6 is that any director or the Company Secretary of the Company will be authorised to attend to the implementation of the special and ordinary resolutions on behalf of the Company.

7. Ordinary Resolution Number 7

General authority to issue preference shares

In terms of clauses 15.2.2 and 15.2.3 of the MOI, the Board requires the approval of the ordinary shareholders of the Company to issue and allot and grant options over the unissued redeemable no par value preference shares (i.e. A Preference Shares (as defined in the MOI)); the non-cumulative, non-participating, non-convertible, voluntary redeemable no par value preference shares (i.e. B Preference Shares (as defined in the MOI)) and the perpetual no par value preference shares (i.e. C Preference shares (as defined in the MOI)) in the share capital of the Company. As such, it is proposed that shareholders provide the requisite general authority to the Board to issue up to 10 000 000 A Preference Shares and 12 000 000 B Preference Shares and 20 000 000 C Preference Shares by passing the following Ordinary Resolution numbers 7.1 to Ordinary Resolution number 7.3:

7.1 General authority to directors to allot and issue A Preference Shares

"Resolved that, as required by and subject to the MOI and the provisions of the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, the Board is authorised, as they in their discretion deem fit, to allot, issue and grant options over and to undertake to allot, issue and grant options over 10 000 000 A Preference Shares from the authorised but unissued A Preference Shares in the share capital of the Company, such authority shall be valid until the Company's next AGM or for 15 months from the date of this Ordinary Resolution number 7.1, whichever period is shorter."

Additional information in respect of Ordinary Resolution Number 7.1

The reason for Ordinary Resolution number 7.1 is that in terms of clauses 15.2.2 and 15.2.3 of the MOI, the ordinary shareholders of the Company may authorise the Board to, inter alia, issue the unissued A Preference Shares and/or grant options over them, as the Board in their discretion deem fit. The authority will be subject to the Companies Act and the JSE Listings Requirements respectively. The effect of Ordinary Resolution number 7.1 is to ensure that the Board has the necessary flexibility to allot and issue (or grant options over) up to 10 000 000 A Preference Shares as they deem fit.

7.2 General authority to directors to allot and issue B Preference Shares

"Resolved that, as required by and subject to the MOI and the provisions of the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, the Board is authorised, as they in their discretion deem fit, to allot, issue and grant options over and to undertake to allot, issue and grant options over 12 000 000 B Preference Shares from the authorised but unissued B Preference Shares in the share capital of the Company, such authority shall endure until the Company's next AGM or for 15 months from the date of this Ordinary Resolution number 7.2, whichever period is shorter."

Additional information in respect of Ordinary Resolution Number 7.2

The reason for Ordinary Resolutions number 7.2 is that in terms of clauses 15.2.2 and 15.2.3 of the MOI, the ordinary shareholders of the Company may authorise the Board to, inter alia, issue any unissued B Preference Shares and/or grant options over them, as the Board in their discretion deem fit. The authority will be subject to the Companies Act and the JSE Listings Requirements respectively. The effect of Ordinary Resolution number 7.2 is to ensure that the Board has the necessary flexibility to allot and issue (or grant options over) up to 12 000 000 B Preference Shares as they deem fit.

7.3 General authority to directors to allot and issue C Preference Shares

"Resolved that, as required by and subject to the MOI and the provisions of the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, the Board is authorised, as they in their discretion deem fit, to allot, issue and grant options over and to undertake to allot, issue and grant options over 20 000 000 C Preference Shares from the authorised but unissued C Preference Shares in the share capital of the Company, such authority shall endure until the Company's next AGM or for 15 months from the date of this Ordinary Resolution number 7.3, whichever period is shorter."

Additional information in respect of Ordinary Resolution Number 7.3

The reason for Ordinary Resolutions number 7.3 is that in terms of clauses 15.2.2 and 15.2.3 of the MOI, the ordinary shareholders of the Company may authorise the Board to, inter alia, issue any unissued C Preference Shares and/or grant options over them, as the Board in their discretion deem fit. The authority will be subject to the Companies Act and the JSE Listings Requirements respectively. The effect of Ordinary Resolution number 7.3 is to ensure that the Board has the necessary flexibility to allot and issue (or grant options over) up to 20 000 000 C Preference Shares as they deem fit.

SPECIAL RESOLUTIONS

1. Special Resolution Number 1

Approval of Non-executive Directors' remuneration – 2018/2019

Resolved that payment of the following fees be approved as the basis for calculating the remuneration of the Non-executive Directors for their services as Directors of the Company for the financial year ending 30 June 2019:

	2017/2018	Proposed 2018/2019
Retainer for the chairperson	R4 200 000	**R4 431 000**
SA-based board retainer	R200 000	**R211 000**
SA-based board attendance fee	R33 500 per meeting	**R35 350 per meeting**
SA-based committee chairperson retainer	R225 200	**R237 590**
SA-based committee members retainer	R130 375	**R137 550**
SA-based committee chairperson attendance fees	R26 075 per meeting	**R27 500 per meeting**
SA-based committee member attendance fee	R16 600 per meeting	**R17 510 per meeting**
USA-based board retainer	USD39 620	**USD40 800**
USA-based board attendance fee	USD6 565 per meeting	**USD6 760 per meeting**
UK-based board retainer	GBP30 155	**GBP31 060**
UK-based board attendance fee	GBP5 065 per meeting	**GBP5 220 per meeting**
UK-based committee chairperson retainer	GBP28 535	**GBP29 390**
UK-based committee chairperson attendance fee	GBP2 800 per meeting	**GBP2 890 per meeting**
UK-based committee member retainer	GBP8 615	**GBP8 870**
UK-based committee member attendance fee	GBP1 190 per meeting	**GBP1 225 per meeting**
AUS-based board retainer	–	**AUD54 350**
AUS-based board attendance fee	–	**AUD9 130 per meeting**
AUS-based committee member retainer	–	**AUD15 520**
AUS-based committee member attendance fee	–	**AUD2 145 per meeting**
Non-resident director travel allowance	USD2 700 per return leg	**USD2 700 per return leg**

Additional information in respect of Special Resolution Number 1

In terms of section 66(8) and (9) of the Companies Act, which took effect on 1 May 2011, remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders within the previous two years and if not prohibited in terms of the Company's MOI. Therefore, the reason for and the effect of Special Resolution Number 1 is to approve the payment of and the basis for calculating the remuneration payable by the Company to its non-executive directors for their services as directors of the Company for the period ending 30 June 2019 in terms of section 66(8) and (9) of the Companies Act. The fees payable to the non-executive directors are detailed above. Further details on the basis of calculation of the remuneration are included in the Remuneration Report on page 106.

2. Special Resolution Number 2

General authority to repurchase shares

Resolved that the Board is hereby authorised by a way of a renewable general authority, in terms of the provisions of the JSE Listings Requirements, section 48 of the Companies Act and as permitted in the MOI, to approve the repurchase of its own ordinary shares by the Company, and the repurchase of ordinary shares in the Company by any of its subsidiaries, upon such terms and conditions and in such amounts as the Board may from time to time determine, but subject to the MOI, the provisions of the Companies Act and the JSE Listings Requirements, when applicable, and provided that:

2.1 The general repurchase by the Company and/or any subsidiary of the Company of ordinary shares in the aggregate in any one financial year do not exceed 15% of the Company's issued ordinary share capital as at the beginning of the financial year, provided that the acquisition of ordinary shares as treasury shares by a subsidiary of the Company shall not be effected to the extent that in aggregate more than 10% of the number of issued shares in the Company are held by or for the benefit of all the subsidiaries of the Company taken together;

2.2 Any such general repurchase will be subject to the applicable provisions of the Act (including sections 114 and 115 to the extent that section 48(8) is applicable in relation to that particular repurchase);

2.3 Any repurchase of securities will be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party (reported trades are prohibited);

2.4 This authority shall only be valid until the Company's next AGM, provided that it shall not extend beyond 15 months from the date this resolution is passed;

2.5 The Company will only appoint one agent to effect any repurchase(s) on its behalf;

2.6 General repurchases by the Company and/or any subsidiary of the Company in terms of this authority, may not be made at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE, as determined over the 5 business days immediately preceding the date of the repurchase of such ordinary shares by the Company and/or any subsidiary of the Company;

2.7 Any such general repurchases are subject to exchange control regulations and approvals at that point in time, where relevant;

2.8 A resolution has been passed by the Board and/or any subsidiary of the Company confirming that the Board has authorised the repurchase, that the Company satisfied the solvency and liquidity test contemplated in the Companies Act, and that since the test was done there have been no material changes to the financial position of the Group;

2.9 The Company and/or any subsidiary of the Company may not repurchase securities during a prohibited period, as defined in the JSE Listings Requirements, unless the Company has a repurchase programme in place where the dates and quantities of securities to be traded during the relevant period are fixed and not subject to any variation and has been submitted to the JSE in writing prior to the commencement of the prohibited period; and

2.10 An announcement will be published giving such details as may be required in terms of the JSE Listings Requirements as soon as the Company and/or any subsidiary has cumulatively repurchased 3% of the number of shares in issue at the date of the passing of this resolution, and for each 3% in aggregate of the initial number of shares acquired thereafter.

The Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future, in particular the repurchase of shares by a subsidiary of the Company for purposes of employee share schemes. The Board undertakes that it will not implement the proposed authority to repurchase shares, unless the directors are of the opinion that, for a period of 12 months after the date of the repurchase:

2.11 The Company and the Group will be able in the ordinary course of business to pay its debts;

2.12 The assets of the Company and the Group, fairly valued in accordance with International Financial Reporting Standards, will be in excess of the liabilities of the Company and the Group;

2.13 The share capital and reserves of the Company and the Group will be adequate for ordinary business purposes; and

2.14 The working capital of the Company and the Group will be adequate for ordinary business purposes.

Additional information in respect of Special Resolution Number 2

The reason for and the effect of Special Resolution Number 2 is to grant the Board a general authority in terms of the JSE Listing Requirements, up to and including the date of the following AGM of the Company (provided that it shall not extend beyond 15 months from the date the resolution is passed), to approve the Company's purchase of shares in itself, or to permit a subsidiary of the Company to purchase shares in the Company and to authorise the Company or any of its subsidiaries to acquire shares issued by the Company in terms of the aforesaid approval. Please refer to the additional disclosure of information contained in this notice of AGM, which disclosure is required in terms of the JSE Listings Requirements.

Other than the facts and developments reported on in the annual financial statements and the integrated annual report, there have been no material changes in the financial position of the Company since the date of the audit report and the date of this notice.

3. Special Resolution Number 3

Financial assistance in terms of section 44 and 45 of the Companies Act

Resolved that, to the extent required by the Companies Act, the Board may, subject to compliance with the requirements of the MOI, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance as contemplated in section 44 and/ or section 45 of the Companies Act by way of loans, guarantees, the provision of security or otherwise, to –

3.1 Any of its present or future subsidiaries and/or any other company or corporation that is or becomes related or inter-related to the Company and/or any other person for any purpose or in connection with any matter, including, but not limited to, the subscription of any option, or any securities issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company as contemplated in terms of section 44 of the Companies Act;

3.2 Any of its present or future directors or Prescribed Officers (or any person related to any of them or to any company or corporation related or inter-related to any of them), or to any other person who is a participant in any of the Group's share or other employee incentive schemes, for the purpose of, or in connection with, the subscription of any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company, where such financial assistance is provided in terms of any such scheme that does not satisfy the requirements of section 97 of the Companies Act,

Such authority to endure until the forthcoming AGM of the Company.

Additional information in respect of Special Resolution Number 3

Notwithstanding the title of section 45 of the Companies Act, being "Loans or other financial assistance to directors", on a proper interpretation, the body of the section may also apply to financial assistance (as such term is defined therein) provided by a company to related or inter-related companies and corporations, including, inter alia, its subsidiaries, for any purpose.

Furthermore, section 44 of the Companies Act may also apply to financial assistance provided by a company to related or inter-related companies or any other person, in the event that the financial assistance is provided for the purposes of, or in connection with, the subscription of any options, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or related or inter-related company.

Both section 44 and section 45 of the Companies Act provide, inter alia, that the particular financial assistance must be provided pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and that the Board must be satisfied that – (i) immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test; and (ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

Therefore, the reason for Special Resolution Number 3 is to obtain approval from the shareholders to enable the Company to provide financial assistance, when the need arises, in accordance with the provisions of sections 44 and 45 of the Companies Act. The effect of Special Resolution Number 3 is that the Company will have the necessary authority to authorise and provide the financial assistance as and when required.

The Board undertakes that, in so far as the Companies Act requires, it will not adopt a resolution to authorise such financial assistance, unless the directors are satisfied that

(i) immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test as contemplated in the Companies Act; and

(ii) the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

Special Resolution Number 4

Approval to issue the Company's ordinary shares to persons falling within the ambit of section 41(1) of the Companies Act

Resolved that, to the extent that the Company is to allot and issue ordinary shares in the share capital of the Company pursuant to, and for the specific purpose of, raising capital to fund the acquisition by the Company (or the Group) of:

- the effective 25.01% interest of FirstRand Investment Holdings Limited ("FRIHL") in Discovery Bank Limited ("Discovery Bank");
- the remaining 25.01% economic interest that FirstRand Bank Limited currently owns in the Discovery card joint venture business; and
- through Discovery Bank, all rights to the Discovery Card book and related assets (which will be migrated to the Company, or the Group, over time),

(the "Acquisition") to any person falling within the ambit of section 41(1) of the Companies Act, being a director, future director, prescribed officer of the Company or a person related or inter-related to the Company or related or inter-related to a director or prescribed officer of the Company (or a nominee of any of the foregoing persons), such allotment and issue is hereby approved in terms of section 41(1) of the Companies Act, provided that such allotment and issue is limited to the proportionate percentage shareholding of any such persons in the Company immediately prior to the equity issuance and is implemented in accordance with the JSE Listings Requirements.

Additional information in respect of Special Resolution Number 4

Shareholders are referred to the announcement released on SENS on 4 September 2018, in terms of which shareholders were advised that the Company and FRIHL have agreed to the Acquisition for total combined acquisition price of R1.8 billion, which acquisition price is to be funded by way of an equity issuance. Certain directors of the Company, including Mr Adrian Gore and Mr Barry Swartzberg, ("Participating Directors") may wish to participate in the equity issuance (at the clearing price of the bookbuild conducted for the equity issuance), however they are only permitted to do so subject to the Company obtaining approval from shareholders in terms of section 41(1) of the Companies Act. The reason for and effect of this special resolution is to authorise the allotment and issue of ordinary shares in the share capital of the Company to any Participating Directors (or a person or persons related or inter-related to any Participating Directors (or a nominee of any of the foregoing persons) in terms of section 41(1) of the Companies Act.

ADDITIONAL DISCLOSURE OF INFORMATION

For the purposes of considering Special Resolution Number 2 and in compliance with the JSE Listings Requirements, the information listed below has been included as follows:

- ### Major shareholders of the Company
  Refer page 167.

- ### Share capital of the Company
  Refer pages 168 to 169.

- ### Directors' responsibility statement
  The directors of the Company, whose names appear on pages 117 to 118, have no specific intention to effect the provisions of Special Resolution number 2 but will, however, continually review the Company's position, having regard to prevailing circumstances and market conditions, in considering whether to effect the provisions of special resolution number 2.

  The directors collectively and individually accept full responsibility for the accuracy of the information pertaining to Special Resolution Number 2 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that Special Resolution Number 2 contains all information required by law and the JSE Listings Requirements.

  - No material changes

    Other than the facts and developments reported on in the integrated/annual report, there have been no material changes in the financial position of the company and its subsidiaries since the date of signature of the audit report and the date of this notice.

APPROVALS REQUIRED FOR RESOLUTIONS

Ordinary Resolutions Number 1 to 7, contained in this notice of AGM require the approval by more than 50% of the votes exercised on the resolutions by shareholders present or represented by proxy at the AGM and further subject to the provisions of the Companies Act, the MOI and the JSE Listings Requirements.

Special Resolutions Number 1 to 4 contained in this notice of AGM require the approval by at least 75% of the votes exercised on the resolutions by shareholders present or represented by proxy at the AGM, and further subject to the provisions of the Companies Act, the Company's MOI and the JSE Listings Requirements.

THE CHAIRPERSON OF THE SOCIAL AND ETHICS COMMITTEE WILL GIVE VERBAL FEEDBACK ON THE ACTIVITIES OF THIS COMMITTEE FOR THE PAST PERIOD AS REQUIRED IN TERMS OF REGULATION 43 OF THE COMPANIES ACT REGULATIONS.

TO TRANSACT ANY OTHER BUSINESS THAT MAY BE TRANSACTED AT AN AGM.

ATTENDANCE AND VOTING BY SHAREHOLDERS OR PROXIES

The record date on which shareholders of the Company must be registered as such in the Company's securities register, which date was set by the Board determining which shareholders are entitled to attend and vote at the AGM is Friday, 16 November 2018.

Shareholders who have not dematerialised their shares or who have dematerialised their shares with "own-name" registration are entitled to attend and vote at the AGM. Any such shareholder is entitled to appoint one or more proxy or proxies to attend, participate in and speak and vote at the AGM in his/her/its stead. The person or persons so appointed as a proxy or proxies need not be a shareholder or shareholders of the Company.

Forms of proxy must be lodge with or posted to the Company at 1 Discovery Place, corner Rivonia and Katherine streets, Sandton, 2196 or posted to the Company at PO Box 786722, Sandton 2146 or lodged with the Company's transfer secretaries, Computershare Investor Services (Proprietary) Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, South Africa or posted to the Company's transfer secretaries at PO Box 61051, Marshalltown, 2107, South Africa so as to be received for the orderly arrangement of matters on the date of the Annual General Meeting (but not required) by them by not later than Thursday, 22 November 2018 at 12h00 (South African time), being not less than 48 hours before the AGM to be held at 12h00 on Monday, 26 November 2018 in accordance with clause 27.3.2 of the MOI. Any forms of proxy not received by this time must be handed to the Chairperson of the AGM immediately prior to the commencement of the AGM before your proxy may exercise any of your rights as a shareholder at the AGM.

Forms of Proxy must only be completed by shareholders who have not dematerialised their shares or who have dematerialised their shares and registered them in their own name.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own-name" registration, should contact their Central Securities Depository Participant or broker in the manner and time stipulated in their agreement, in order to furnish them with their voting instructions or to obtain the necessary authority to attend the AGM, in the event that they wish to attend the AGM.

On a poll, every shareholder of the Company shall have one vote for every share held in the Company by such shareholder. Voting on the resolution to be proposed at the AGM will be on a poll.

Shares held by a share trust or scheme will not have their votes at the AGM taken into account for purposes of resolutions proposed in terms of the JSE Listings Requirements. Shares held as treasury shares may also not vote.

PROOF OF IDENTIFICATION REQUIRED

Section 63(1) of the Companies Act requires that any person who wishes to attend or participate in a shareholders meeting, must present reasonably satisfactory identification at the AGM. Any shareholder or proxy who intends to attend or participate at the AGM must be able to present reasonably satisfactory identification at the AGM for such shareholder or proxy to attend and participate at the AGM. A green bar-coded identification document or identification card issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted as sufficient identification.

VENUE

Please take note that the AGM will be held in the Auditorium, Ground Floor, 1 Discovery Place, on Monday, 26 November 2018 at 12h00.

By order of the Board

MJ Botha
Company Secretary
24 October 2018

Form of proxy

Discovery Limited
(Registration number: 1999/007789/06)
ISIN: ZAE000022331
ISIN: ZAE000158564
Share codes: DSY, DSBP
(the Company)

This form of proxy is only for use by:

1. Registered shareholders who have not yet dematerialised their shares in the Company.
2. Registered shareholders who have already dematerialised their shares in the Company and are registered in their own names in the Company's sub-register.*

For use by registered shareholders of the Company at the nineteenth Annual General Meeting (AGM) of the Company to be held in the Auditorium, Ground Floor, 1 Discovery Place, on Monday, 26 November 2018 at 12h00.

Each shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxy or proxies (who need not be a shareholder of the Company) to attend, participate in and speak and vote in place of that shareholder at the AGM, and at any adjournment thereof.

Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own-name" registration, must not complete this form of proxy but should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement, in order to furnish them with their voting instructions or to obtain the necessary letter of authority to attend the AGM, in the event that they wish to attend the AGM.

Please note the following:

- The appointment of your proxy may be suspended at any time to the extent that you choose to act directly and in person in the exercise of your rights as a shareholder at the AGM.
- The appointment of the proxy is revocable; and you may revoke the proxy appointment by – (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy, and the Company.

Kindly note that, meeting participants (including a proxy or proxies) are required in terms of section 63(1) of the Companies Act No. 71 of 2008 as amended (Companies Act) to provide reasonably satisfactory identification before being entitled to attend or participate in the AGM. Forms of identification include a green bar-coded identification document or identification card issued by the South African Department of Home Affairs, a driver's licence or a valid passport.

A proxy may not delegate his/her authority to act on behalf of a shareholder of the Company to another person.

I/We (please print) .... (name)

of .... (address)

.... (contact number)

being the holder(s) of .... ordinary shares in the Company, hereby appoint (see instruction 1 overleaf):

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

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

3. the Chairperson of the AGM,

as my/our proxy to attend, participate in and speak and vote for me/us and on my/our behalf or to abstain from voting at the AGM which will be held for the purposes of considering and, if deemed fit, passing the resolutions to be passed thereat, with or without modification, and at any adjournment thereof, in accordance with the instructions as follows (see note 2 and instruction 2 overleaf):

Insert the number of votes exercisable (one vote per share)	For	Against	Abstain
Ordinary Resolutions			
1. Consideration of Annual Financial Statements			
2. Re-appointment of external auditor			
3. Election of independent Audit Committee			
3.1 Mr Les Owen			
3.2 Ms Sindi Zilwa			
3.3 Ms Sonja De Bruyn Sebotsa			
4. Re-election of directors			
4.1 Dr Brian Brink			
4.2 Dr Vincent Maphai			
4.3 Ms Sonja De Bryun Sebotsa			
5. Advisory endorsement of the remuneration policy			
5.1 Non-binding advisory vote on the remuneration policy			
5.2 Non-binding advisory vote on the implementation of the remuneration policy			
6. Directors' authority to take all such actions necessary to implement the aforesaid ordinary resolutions and the special resolutions mentioned below.			
7. General authority to issue preference shares			
7.1 To give the directors the general authority to allot and issue 10 000 000 A Preference Shares			
7.2 To give the directors the general authority to allot and issue 12 000 000 B Preference Shares			
7.3 To give the directors the general authority to allot and issue 20 000 000 C Preference Shares			
Special Resolutions			
1. Approval of Non-executive Directors' remuneration – 2018/2019			
2. General authority to repurchase shares in terms of the JSE Listings Requirements			
3. Authority to provide financial assistance in terms of section 44 and 45 of the Companies Act			
4. Approval to issue the Company's ordinary shares to persons falling within the ambit of Section 41(1) of the Companies Act.			

Note: Insert an "X" in the relevant spaces above or the number of votes exercisable (one vote per share) according to how you wish your votes to be cast. An "X" in the relevant spaces above indicates the maximum number of votes exercisable. If you wish to cast your votes in respect of a lesser number of shares than you own in the Company, insert the number of shares held in respect of which you wish to vote (see instruction 3 overleaf).

Signed at .... on .... 2018.

Signature/s ....

Assisted by me (where applicable) ....

Please read the summary of the rights in respect of proxy appointments established by section 58 of the Companies Act, notes and instructions overleaf.

* *See explanatory note 3 overleaf.*

Notes to the form of proxy

Summary of shareholders rights in respect of proxy appointments as contained in section 58 of the Companies Act

Please note that in terms of section 58 of the Companies Act:

- This form of proxy must be in writing, dated and signed by the shareholder appointing the proxy.
- You may appoint an individual as a proxy, including an individual who is not a shareholder of the Company, to participate in, and speak and vote at, the AGM, on your behalf.
- Your proxy may delegate his/her authority to act on your behalf to another person, subject to any restriction set out in this form of proxy.
- This form of proxy must be delivered to the Company, or to the Company's transfer secretaries, Computershare Investor Services Proprietary Limited, before your proxy exercises any of your voting rights as a shareholder at the AGM. Any form of proxy not received by the Company or the Company's transfer secretaries must be handed to the Chairperson of the AGM before your proxy may exercise any of your voting rights as a shareholder at the AGM.
- The appointment of your proxy or proxies will be suspended at any time to the extent that you choose to act directly in person in the exercise of any of your rights as a shareholder at the Annual General Meeting.
- The appointment of your proxy is revocable unless you expressly state otherwise in this form of proxy.
- As the appointment of your proxy is revocable, you may revoke the proxy appointment by – (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and (ii) delivering a copy of the revocation instrument to the proxy and to the Company. Please note that the revocation of a proxy appointment constitutes a complete and final cancellation of your proxy's authority to act on your behalf as of the later of the date stated in the revocation instrument, if any, or the date on which the revocation instrument was delivered to the proxy and the Company as aforesaid.
- If this form of proxy has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the MOI to be delivered by the Company to you must be delivered by the Company to you or your proxy or proxies, if you have directed the Company to do so, in writing, and paid any reasonable fees charged by the Company for doing so.
- Your proxy is entitled to exercise, or abstain from exercising, any voting rights of yours without direction at the AGM, except to the extent that this form of proxy provides otherwise.
- The appointment of your proxy remains valid only until the end of the AGM or any adjournment or postponement thereof, unless it is revoked by you before then on the basis set out above.

Explanatory notes

1. A shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxy or proxies to attend, participate in and speak and vote in his/her stead at the AGM. A proxy need not be a shareholder of the Company. Satisfactory identification must be presented by any person wishing to attend the AGM, as set out in the notice of AGM (to which this form of proxy is included).
2. Every shareholder present in person or by proxy and entitled to vote at the AGM of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such shareholder holds, but in the event of a poll, each shareholder shall be entitled to one vote in respect of each ordinary share in the Company held by him/her.
3. Shareholders who have dematerialised their shares in the Company and are registered in their own names are shareholders who appointed Computershare Custodial Services as their Central Securities Depository Participant (CSDP) with the express instruction that their uncertificated shares are to be registered in the electronic subregister of shareholders in their own names.

Instructions on signing and lodging the form of proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided overleaf, with or without deleting "the Chairperson of the AGM", but any such deletion must be initialled by the shareholder. Should this space be left blank, the Chairperson of the AGM will exercise the proxy. The person whose name appears first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's voting instructions to the proxy must be indicated by the insertion of an "X" or the number of votes exercisable by that shareholder in the appropriate spaces provided overleaf. An "X" in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the AGM, as he/she thinks fit in respect of all the shareholder's exercisable votes. A shareholder or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the shareholder or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. Forms of proxy must be lodged with the Company at 1 Discovery Place, Sandton, South Africa or posted to the Company at PO Box 786722, Sandton 2146, South Africa or lodged with the transfer secretaries of the Company, Computershare Investor Services Proprietary Limited, at Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 Johannesburg, South Africa or posted to the transfer secretaries of the Company at PO Box 61051, Marshalltown 2107, South Africa, to be received by them not later than Thursday, 22 November 2018 at 12h00 (South African time), being at least 48 hours before the AGM to be held at 12h00 on Monday, 26 November 2018 in accordance with clause 27.3.2 of the MOI. Any forms of proxy not received by this time must be handed to the Chairperson of the AGM immediately prior to the commencement of the AGM.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries of the Company or waived by the Chairperson of the AGM.
6. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy or proxies appointed in terms hereof, should such shareholder wish to do so.
7. Where two or more persons are registered as the holders of any security they shall be deemed to hold that security jointly, and any one of the joint holders of any security conferring a right to vote on any matter may vote either personally or by proxy, at any meeting in respect of that security, as if he were solely entitled to exercise that vote, and if more than one of those joint holders is present at any such meeting, either personally or by proxy, the joint holder , who tenders a vote (including an abstention) and whose name stands in the securities register before the other joint holders whom are present, in person or by proxy, shall be the joint holder who is entitled to vote in respect of that security.
8. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this form of proxy must be initialled by the signatory/ies.
9. The Chairperson of the AGM may reject or accept any form of proxy which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a shareholder wishes to vote.
10. A proxy may not delegate his/her authority to act on behalf of the shareholder of the Company, to another person.

STUDIO 5

Discovery

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