S1 2012 Earnings Call

Company Participants

- Adrian Gore, BSc (Hons), FFA, ASA, MAAA, FASSA, Group Chief Executive Officer
- Corporate Participant

Other Participants

- Analyst
- David Danilowitz
- Michael Christelis

Presentation

Corporate Participant

[Call Starts Abruptly]...for heading us for this presentation. We're being hosted by Discovery Holdings Limited. There is a presentation on the interim results for the period 31st December, 2011. I see from the Discovery website that, it says that in March 1992, Adrian Gore setup an office that seems to be the beginning of the business and so next month, the Discovery will be going for 20 years if I am right on it and quite a lot has happened over the last two years.

The company has developed into healthcare, life insurance, insurances, financial services, bonus programs not only in South Africa but the UK, USA, China and elsewhere and it's been a very interesting 20 years. On behalf of the society I'd like to congratulate Discovery on that and hope that the performance and the rewards both to them and to ourselves in next 20 years would be just as exciting.

So on your behalf, I'd like to thank them for hosting us and to also Adrian Gore, the CEO of Discovery to come and make the address. Thank you.

Adrian Gore {BIO 3068929 <GO>}

Thanks for that calm introduction. It has been a very, very, so I think 20 years. I had long hair 20 years ago. So I am hanging out with less of it, but let me just firstly welcome everyone. Appreciate the time.

Our team is here in large numbers. So, after which I am happy to kind of cheer all again, we welcome the questions as they come along. Let me just start by thanking and I really would like to do that, thanking our Discovery people and our staff. It's been a remarkable successful six month period and people have worked remarkably hard and I just want to thank them for what they've done.

Let me go on and say thank you Mark, thank you for the society for the opportunity. It has been a tremendously exciting period at Discovery, a lot has taken place. But I do want to -- make the points and I hope it's worth making that, we believe very strongly that a business is not just about making money, the business needs a purpose, it needs a profound purchase to a large extent.

Discovery is of the belief that you need to almost -- very separate and to an extent -- things. One is, we'll be focusing on social impact and are really making a real impact in the societies in which we operate. On the other hand, you need to be competitive, focused on building a successful business.

And I do think the ability to do both at the same time is fundamental to building in that business. And it's in that context that Discovery continues on a vision like we said many years ago, about making people healthier and having a profound impact on the people that we serve.

So I don't think -- kind of purpose in anyway not underscore our ambition. I think our ambition is clear, is to build the greatest the best insurance company in the world that we aim to do. We aim to do that in a way that is around the excellence, financial strength, innovation and we plan to be a powerful force on the societies, in the societies in which we serve.

Our methodology and our tactics I think is fairly clear. We have a very focused, clear business model, one that utilizes building the best-of-breed health and life insurance and financial services companies -- behavioral structures to get the best out of people and create the world with people want to part of the latest fundamental and then from a financial perspective, through that approach in the sense reaping the innovation on profit -- margin and essentially offering returns to shareholders that are excellent and superior.

And in the period under review, I think to a large extent that precisely what we have focused on, today Discovery is operating in four territories, I think progress has been swift very strong and I think across all of them, South African businesses, our UK businesses particularly had a very, very good period. In China, we began getting traction and in the U.S. So, we have focused over the last six months over the entire spectrum of the geographies in which we are active.

I do really talk about contextualizing the business model because to a large extent, if you look at the results in question, you will see that it is really a manifestation of the approach and your views. On the left hand side is really the tactics which you'll have seen before, if you have followed us.

The idea of building best-of-breed businesses help -- financial services particularly on the -- of engaging people through Vitality, integrating them and the combination of them, allowing us to offer value proposition that's better, that's different, superiority for ones who buy, getting better selection from -- perspective, getting better mortality morbidity experience overtime and getting a better impact on society through the approach.

On the right hand side is the model in terms of funding and growth, and we're an organization that believes very strongly in organic growth. And so logic says our approach is about incubating new businesses, our guideline is 5% to 7% of operating profit spend on building new businesses from ground up, leading them up into the market with a very focus idea of being dominant in the markets in which we operate, often superior products with better margins.

And then from a funding perspective, funding internally, a high dividend cover. On the international front, partnering with the best companies out there using their scale, their brand, their capital and in any it would at scale. And it's about, in a sense, going around that virtuous cycle that has let us grow as we've developed.

Turning to the actual period under review, the manifestation of that model is kind of a bunch of businesses to an extent, on a similar chassis but at different stages of their evolution. Our -- businesses South Africa Discovery Health, Life, Vitality and -- is part of Vitality. Our emerging businesses in the UK -- protect and Discovery Invest. And then our new businesses, Discovery Insure, Ping An Health in China and the Vitality grouped with Humana in the U.S. And so to an extent it's kind of a duration of the -- estimate in new businesses on launch at three years, emerging on -- 55, 56 years and their status to an extent are older than that. And that's kind of the process that's involved.

So it has been very, very active period in the evolution of our business. But to put into context the new, the established businesses generated 3.1 billion of new business, operating profit of 1.5 billion over the six-month period, so 3 million unique members or customers. And the emerging business has great traction, 1 billion or so of new business generated. All are profitable, nearly 250 million and made 0.25 billion of profit, 700,000 or so unique customers served.

The new businesses have got amazing traction very quickly in the six months under review. To illustrate that, we did nearly 0.5 billion of new business. We invested more than the 5% to 7% in there primarily in Discovery Insure, it's a big place for us in the local markets. So we're pushing very, very hard. So we invested 9% of profit in total in that and serving already close to 2 million members. So it's a very quick scale in terms of Humana potentially in terms of China and Ping An. So it has been a very, very good period for us.

Let me turn to the financial results. And I'm pleased to say Discovery produced 2% increase in operating income, operating profit is 1.60 billion. New business grew by 21% to 4.5 billion, and -- embedded value grew by 18% to 21.4 billion.

Now what I'd like to do is I've only kind of mentioned a few observations on each business. I'm now going to shift to just, to the financial performance and then go back and take a look into each of the business -- a strategic oversight.

So let me start with the existing, the established businesses, Discovery Health, Life, Vitality and Card. I think the performance was remarkably robust. Discovery Health had an excellent performance, operating profit up 10% on a very high base. Excellent dynamics in the healthcare system to a large extent, cost and efficiencies to members and I'll take you through that later.

Discovery Life had also a very robust performance, operating profit up 12% and -- focus on quality, manifesting -- experience and mortality experience. Vitality has had a tremendous number of years in fact and -- focus on the science of Vitality, on the engagement of Vitality. And to a large extent, we will see the levels of engagement -- tremendous.

Discovery Card also has had a fantastic period. I'm not going to go into that, we don't have much time for that. But the market share of Discovery Card has approached 9%, so it really is getting real traction. The -- were particularly low. Illustrating I think few things; one, the opportunity for further businesses coming out of Discovery Card, and the other is just the quality of the Discovery client base. So essentially when Discovery members buy a product, and you can kind of monitor their behavior to credit risk, you see the performance coming out of this. So I think that offers great potential going forward.

So the established business I think has done remarkably well.

The emerging businesses had a fantastic six months. Discovery Invest locally tremendous growth, operating profit up 84%, assets under management up significantly, great focus on quality, manifesting in their profit.

The UK, to my mind, has had a seminal period over that six months. We are in good health digesting the acquisition of Standard Life Healthcare, and that's going I think remarkably well. Operating profit grew by 30% or thereabouts.

PruProtect to a large extent is a slower --. We've got tremendous traction in the UK life insurance market. PruProtect with a substantial profit, 115 million versus the previous loss, catching nearly 9% of the British life insurance broker market. Every aspect of the business I think has performed well. And you'll see later in the presentation just how that goes out.

And then go to the new businesses Discovery Insure had a remarkably exciting positive six months the receptivity to the product have tremendous with over 118 million of new business over the six month period and 140 million in total since the launch of -- reporting period -- remarkably exciting. And in China embryonic surpassed -- really got on the ground working for -- talking of the business getting out IP to the market building the technology and assistance. All this got tremendous traction, record growth 430,000 loss covered I think the potential there is quite significant.

And then going to the U.S. -- also the -- is kind of moving up the trend but from a 1 million lies on to the authority -- quickly so they are moving very quickly to -- into their structures. So that journey is an overview to an extent of the numbers, I would like to kind of some get into some of the detail. I'm not going to spend much time on the numbers, there is a lot of -- disclosure that you have with you. I'd like to talk more about strategies and kind of where we are heading. So let me start just giving you the new business numbers up 21%

upto 4, 5 billion as you can see -- growing well above -- a very basing as you effected that later.

The emerging business is having a I think a very good progress particularly to protect and discovering this. Improved health and I'll take you through the strategy just now there is a strong focus on profitability on the loss share, so we -- our business dramatically and then off course we saw slight shrinking of the new business and I'll take you through a bit later. And then on the new business side you can see the quantum of new business driven by the JVs in other markets has been I think tremendous and bodes well going forward.

Let me turn to profitability operating profit of 22%, to -- billion as you can see, the established business is growing well robustly at the high base. Vitality was kind of a breakeven it will -- we've sent a lot of time on investing in Vitality systems and structures and engagement levels are high so we are very comfortable with once you see the foundational effect of that for that later on --. The emerging business very strong growth as you can see Discovery and this and PruHealth, PruProtect really kind of what for in terms of this growth rates very strong profit and -- its potential.

And on the new business side I made the point that we invested significantly in Discovery Insure so spending about 9% of operating profit on Quebec in those new businesses. But I think the progress is being quite marketable and --. In terms of actually getting to headlines earnings.

But it's a complexities in our numbers and this is been around for I think few reporting periods or there about the acquisition of stand of our healthcare - in the numbers. You need to what we our require to mark-to-market certain structures we require to show there insurance and restructuring et cetera goes about kind of doubling the results. I think this is the last period you will see this so we have reached to normalized in our earnings per share.

We've got exactly what -- in previous period you can see this operating profit of 22% as I have just said. If you got a headlines earnings in your product requirements that's 62% which is clearly not correct. So, we change the approach as we've done in the last couple of years getting to normalized headline earnings at 20% if you just had 2 billion and earnings per share at the same level procurement to $0.70.

So that is really the profitability. If you look at the headline earnings per share graphically you can see that the growth I think is strong and consistent and to a large extent the pieces I think to scale the scale of growth is key of a very difficult financial from 2009 confidence that we can continue to grow.

And note this growth we're mentioning and said at the Discovery is now 20 years old interesting. If you look at the invested capital the Group has been very large on external capital. I thing the very billing in total of equity capital I would guess there about. So on invested capital from the asset is about 60% compound of 20 years. And I need to say that much we can maintain. But there has been I think a remarkable and I think have the ability to continue to grow organically in a smart way.

Turning to embedded value I'm not going to spend much time on it has progressed strongly to -- see that graphically an 18% increase about $0.50 per share embedded value. Let me make some cross sectional observations of the results first in the new business side I think it is interesting and I think quite exciting to look at the progression of the new business production from year-to-year.

We have had a very strong growth in new businesses as you can see. But I think what's exciting is the fact that the new business streams are coming from --. So many years ago -- dominate obviously the new business you can see the multi-dimensional that's coming from the new, the emerging businesses is substantial, and I think it would be soft for us, what is geographic diversity. And if offers fantastic embedded growth going forward and I think that's very important.

The second observation is one I won't cover here, was very important to us is innovation. There has been dramatic innovation crossing entire group over this period, the six month period in the U.S., the UK. Here wherever we've gone there is a lot of work taking place in rebuilding structure systems products and that's gone down the market and that really is the driver of growth and is core to our business.

Third observation is just cash generation. Discovery is generating considerable amount of cash around 1.8 billion, we generated in the period under review have broken it up in the last period into where it's come from. We can see it's from multi-dimensions and health and the other businesses are generating cash.

And we are investing what life generates back into life. And that's an explicit decision, I'll take through the thinking behind it later in the presentation and you can see the other businesses are requiring some cash and in fact, very little. And I think evidence of a very good process, the capital occupancy we've taken particularly offshore is up and paying dividend in the sense that the ability to grow. But we've grown fairly capital light basis and I think that's exciting for us going forward.

And then finally I just making sure return on capital in the period under review, our target is risk free plus 10% at the fairly high target to up, but its for on equity, but it's been on capital. You can see we're achieving around return of around 10, sorry again, we're achieving a return of around risk free plus 14% or 14% to 18% of that hurdle. I hope and believe we can continue to achieve that going forward. So, returns have been good.

Then we turn into the businesses. And goes through each of them, I'm not going to get into too much detail, but I'm giving this message to take you through the strategy of what we're trying to achieve. And I'm going to start with the established businesses. I have had a very good period, had a very robust period as you can see. And I think strong personality may be most appropriate, not from the proper perspective, but a really fundamental and foundational and to what we do.

If you look at the numbers, as I said before, the operating profit breakeven in fact have lost two periods. That may reverse going forward. But as we focus a lot on engagement on investing in the funds, very importantly on investing in the ability to kind of take our --

to repeat it in scale in other markets. And there has been a lot of period under view on that issue.

But as you can see that the enrollment levels have been absolutely tremendous. The number of families engaged in HealthyFood has gone from 277,000 number of gym members has gone to, as you can see 400,000 plus. You can see the number of gym visits, nearly 21 million visits over the period, over the calendar year. It's a remarkable account. Out of 20 million of them myself. But apparently some other members who are busy as well. But I think it is a -- of the kind of engagement level that we're getting. And then amazingly you can see the reward structure like the Kulula have been remarkable, the growth has been absolutely staggering.

If you look at graphic you can see how engagement levels have tended to increase. So, our physically activity is a proxy for physical activity. You can see the levels, the actual activity and usage has gone up. The Kulula structure you can see how it's been exponential growth there. Now, just you think about it's 750,000 plus in a period that's effectively 11, 737s full everyday 365 days a year. You just think that the kind of scale what Vitality is doing.

And then to earn them, people are doing healthy things. That's the key issue. So if you look at health risk assessment, nutrition, stress management pap smears, mammogram, whatever you look at, you can see the activity levels are literally the hundreds of thousands, 0.5 million level, illustrating the power of what Vitality is achieving out there.

One of these earnings and over the period that effectively works a lot on was the HealthyFood structure. The crisp message of HealthyFood has gone down well. You got to pick and pay. You buy HealthyFood, you get 25% off. It's a very simple crisp message.

And the kind of recognized it well, because of time base. But at same time the complexity of it, and the kind of under the skin, cannot be in round estimated, directing the food stuffs getting in there, understanding that, getting into the systems of the power of HealthyFood benefit is its simplicity of execution. you're going to the store, you go to it, everything is built and you have your HealthyFood card, et cetera. And that has driven up the utilization, it's driven up the kind of things people have to do, to earn them HealthyFoods. And then on the extreme right, you can actually see the quantum of HealthyFoods that people have bought cumulatively -- over the period it's been around 1.2 billion grams of HealthyFood from pick and pay.

So the attraction, the crispness of the message the scale of the benefit of sending you like to repeat and repeat in other markets as well. So during the period, two things have been rolled out, on exactly the same kind of idea. One was a healthy care benefit, the other thing healthy gear benefit. The same kind of idea.

In the case of healthy you get a joint venture fixed, you get a call, the same kind of idea, when you got to fix for self care, for sun tan lotion, all range of benefits, you get a 25% discount, dental care et cetera and more concerned basis, both into the system and easy to access. On the healthy gear side, we did a joint venture with Adidas.

You go to total sports, you go to Adidas store, same idea 25% of both into the system, you get your cost to achieve, the process is great, application down the line and for the Discovery COGS, if you roll these up into the market that are running up now actively and the reception was I think -- feel tremendous. A lot of work done on understanding the behavioral the hydro structures it work, get -- engaged, and we're going to continue doing those and repeat those going forward.

We're investing considerably in the size of our -- continue to work for some of the smartest -- in the world around understanding the correlation between behavior, incentives, healthcare, mortality et cetera and I would say to that, I think we are probably the leaders in understanding these aspect, and thereby -- ability to build this into our product going forward.

And the total number of collaborations with some of the best institutes in the world, for example working with -- smartest minds in this field. We have growth in the International Institute of Health in the U.S. working with the -- corporation and understanding some of these infrastructure and how they work.

Working with -- university and some of the other aspects. So to a large extent, is a considerable investment in the signs of vitality and giving us the opportunity and the ability to continue to build on that platform. The area of investment and focus over the period, I have made the point with the -- was the ability to take -- scale it and the repeat it in other markets.

So we build a very robust model, I believe around the technology of vitality, the people model we use -- how we get into other markets. And we're really pioneered this with -- of how you can get to see the other markets and -- and I think that bodes well for the future and how we can, as I say repeat and scale the model and it's probably the point that we're making is just, I think the recognition -- is getting around the work which we're doing. You may have seen this, I mean recall with a few months ago -- column of -- new business structures, but really a feature on Discovery and vitality and -- and so that company has some rough ideas for promoting health.

So clearly we didn't make the front cover, clearly the sky has -- that's an amazing thing, so yeah. If you can see that place -- is very proud of that. And I think indicative of kind of the -- Discovery, I think world is moving in that direction and if we can capitalize on the learning, on the science, on the capabilities, there is -- to what we can achieve. So Discovery, vitality -- has a remarkable timing to -- and the signs of vitality. Let me turn to Discovery Health..

Discovery Health had a, I think exceptional six months period. It operates in a very complex environment that I think the growth in the strategies and the results, broader than that for our members and for society I think is very, very positive. If you look at the numbers, it's actually interesting.

It's a massive capability, the Discovery Health medical scheme is a massive, and it's on -- it kind of the effective large numbers and clearly business of a very high base by 6%. At the same time -- which are remarkably low, most health insurance structure have -- as around 10%-15% even higher 15% to 20%.

Our lap rates have been incredibly low, around the 4% level and we try to continue to drift down around -- 9%. So, the combination of these two factors, strong new business of a high base and the low lap rate, in that you get is very big growth in the underlying membership base.

So our membership base that has bulk up, over 20 years grew as you can see by 7% just year-on-year, that's a massive rental growth. And the effect of that was to drive considerable efficiencies inside Discovery Health. If you looked at the co-operating profit, it actually went up 24% because of these -- investment structures and systems, I think last -- my last presentation I showed you some arcade work -- doctors, as a consumer invest in healthcare system, despite that, may get -- the efficiencies coming out of the system.

If you look at it graphically, you can see the progression of new business, very strong and very solid. You can see the lapse risk in the middle are kind of fluctuating, they're coming down over the period, but the combined effect of the two, if you look on the right hand side of the screen, you can see the Discovery Health Medical Scheme, kind of a point of inflection as far to really rapidly grow over the last two periods and that drove the growth.

We took a decision and in fact it's a continuation of the process that we've been taking, is reducing administration fees that Discovery Health charges to Discovery Health Medical Scheme. That five years ago, the core administration fees were around 11%, we've been aiming to get them to a positive 9%.

So we took the opportunity, given that scale to reduce the fee somewhat, we cut 100 million of those fees and as you can see the fees have come down massive to around 9% level and in fact is to bring the operating profit down to about 10% level. We think that's a very good result. It balances out, nothing that kind of reflects that Discovery Health is driving some excellent results.

The same time the Discovery Health Medical Scheme continues to grow, obviously reserves touching over 7 billion, its remarkably strong in its respect.

If you look at the embedded value, of course we need to capitalize on the embedded value, the effect of that cut in administration fees. The EV process doesn't allow us to take into account future efficiencies, but we're very confident that despite -- slightly down -- we have the ability to retain it and drive it going forward.

Let me turn to what I think is probably more important than healthcare itself. There's a huge amount of work -- Discovery Health around investing in healthcare system, pushing out different areas, building it up. But during the period under review, there was a lot of work done on the balancing of health benefits, and this got a lot of public press and a lot of debate and a lot of work around it.

But -- if you look at the drivers of medical inflation, what is driving up medical inflation? If you look at it, on average medical inflation we're seeing is about TPI plus -- focus --. If you look at the causes of it, firstly you'll see the administration fees in fact are deflationed obviously because we're bringing it down.

But if you look at the cause of it, it's interesting. On the extreme left hand side, there are things like oncology that are expensive and highly inflationary. Our view is that that's estimate. There's fantastic technology, there's -- in critical care there's a slew of continued innovation in healthcare. And unlike other industries, other industries technology brings cost down. In healthcare, technology takes cost up. You can do more, and that's I think an excellent thing. In our view, either you need to fund that or you need to chase that properly. That's the kind of implicit mandate that Discovery stands behind.

At the same time in the middle we have the allied health benefits, things like physiotherapy, occupational therapy, highly inflationary. Now the benefit structure that we've created for that -- very high limits, no controls, and this one's just inflationary in that benefit. And we felt given our focus is in this developing, we need to re-balance the benefits in some way.

If you look at the kind of anecdote, it's kind quite remarkable the tings that we hope to see. If you look at physiotherapy, occupational therapy -- these are on the left hand side sort of the high strainers, some individual went to their physiotherapist 400 times in a year. it's a remarkable performance, right? If you were going to a -- 250 times a year. This is anecdotal obviously. But the real issue is a systemic problem on the right hand side.

If you look at rates of inflation of the -- it's a lot sustainable, plus 15%, 20%, we didn't see it as really getting the kind of -- out there. And for a large extent, it's not a function of the members or the providers. Our providers are doing a great job. The benefit itself, the structure in a sense to incentivize that kind of behavior. -- we had to change that benefit. That's exactly what we -- in to 2012 announced this kind of a change. A few months ago we offered one big -- applied for benefits than you needed.

That is very consistent of the American style. That would give you unlimited benefits to those kind of structures. But I think what came out of it is quite amazing, illustrating just the importance and the intimacy of healthcare. So we've been involving Facebook petitions and debates and whatever. And that's been a incredibly illuminating process. We've met with different groups, we've learned in the process. It has been a powerful, often difficult process, but one I thin has been -- overall. But you must persevere. I guess you need to keep focusing on the areas where I think --.

If you are in critical care, things like open heart surgery, there's this things like heavy trans, whatever it's called, only you can clear it up later. -- open heart surgery, you have this kind of intervention that is an entirely different kind of technology, hugely expensive, 350,000 around or so --.

In the area of oncology and cancer, drugs like -- and other biological drugs -- remarkable. They're hugely expensive. They cost 300,000 or 400,000 a year for five or six years.

That's where the money used to go. And if I focus on balancing after the benefits in that regard.

If you actually look at the spend on oncology and our top -- over the last years it's been hundreds of millions. In fact you can see on the right hand side, the rate of growth in this -- one drug --. So he's spent over 2011 over a billion on oncology. And I tend to think that's an excellent use of -- money, because that's in fact health insurance is about. When you're desperately sick, we have to in a sense --.

But I think the difficulty at a -- cycle level is a very well -- global, the silent tick of --. And we have to kind of balance out that dynamic. So when you actually look at medical schemes funded by members, the members that you fund their treatment, if you actually do the numbers, you'll find that you need 10,000 healthy members to fund 200 or so members that use allied health benefits, the 200 or so members who will take the treatment. It's a lot -- you need to keep re-balancing those benefits.

So work is being done on the healthcare system allied benefits as well. It's often occasionally structurally painful, but I believe it's appropriate and I think -- promise if you make our members, even though if you acquire allied health benefits, if you need the care you're going to get it and that's how the benefits structure does work.

But I do think if you've had a very complex process the one I think has been successful. Having said that, what is quite remarkable is medical schemes and healthcare are just all over the press and the current South African thing, they have an natural biased towards negativity. It's kind of a -- feeling that things are about to end for some reason. And that's particularly true of healthcare and private healthcare the -- quite sustainable in someway.

It's a terrible market and frankly so. We live in a great country, we live in a system and it's about building that for the future. And Discovery is absolutely committed to doing this, so while this kind of press coverage is critical -- issues away. I worry about the implication that -- is not sustainable that is not correct. The system is good, it's sustainable our doctors in our hospitals are doing a good job.

It's about building and adopting accountable force and a Discovery we are responsible, we have to build it. But -- question is why we get this kind of feeling? So asking -- our thoughts are on two interesting contradiction or paradoxes. One is -- paradoxes quite remarkable, every time we put through a increase we look in a society something is wrong.

And the paradoxes around the idea that no miss belief they are paying too much and doctors need are getting too little. But the fact is both are maybe correct, but the paradoxes how they can agree with each other. Because this tremendous -- and -- the contribution -- worse.

So what is the problem? Th problem I think lies in the nature of health insurance, if you look at the rate increases from year-to-year you will find that medical inflation is that much difference to the private education in fact a food unfortunately of other goods and services transport the CPR past a couple of percentage points. We need to do that -- we need to those are the facts.

The difficulty with health insurance and -- is it's -- 80% of the people don't use it. But so the direct increase -- is really, they are not getting value -- in fact creates this mindset that something is wrong, but off course it isn't wrong because this is fallen sick all using it and that's a critical issue.

The -- paradox is the affordability type -- I think this is something that we need to be really concern about, but the fact is we know our members struggle with affordability. It's difficult to afford these things and drives drop to make it more affordable, now -- but the idea that it's kind of reaching out of control it's going to drop off -- itself -- is just not correct.

If you look at the cost of healthcare business other goods and services in fact the -- probably no different to buying a relatively small car, covering it for fuel insurance cost are the same. But it's a lot less than private healthcare and private education the question off course is why is that perception. But then I'll -- that it's probabilistic -- everyday hope you get the same feeling it's more difficult.

So the feeling is unaffordable, but the reality on the ground is that members aren't really dropping out of the system. The -- benefit it's just not true. When we look at our buy downs and buy outs from year-to-year it's a consistent process, probably 98% of our -- buying or staying where they are no one is buying benefits show you from 2009 last year. The rates buying down it's remarkably robust.

So the system is a lot stronger than I think people give it credit for. And then in terms of quality our doctors in hospitals are doing well. It's a benchmark the outcomes out of health care system versus some of the best systems in the if you look at -- mortality, you look at 30 day comfortable of course we can do better.

We can do better we can do that on affordability you can work on but the system is doing well and if you something that I think is important the actual medical scheme industry it's not doing a great job. It's a fantastic asset is opening enrollment as community write and very importantly the coverage levels are very, very high. So if you look at the Discovery health plan across the board you ask the -- our path rate costing five group is about 98% so an average claiming of hedge and I am sure competitors are very much the same.

So, the point I am making really is that we are commented to healthcare system we believe it's a good system and we need to clear up the misconception that it's kind of about the and I think the strength of the profit system does ask the company's to already right.

We are committed to it it's coming off the position straight to government build and healthcare can more people helping in very respect. Let me turn to Discovery Life and make the point that I think Discovery Life has had an excellent year, a very robust year of focus on qualities to a large extent. Operating profit up 12%. You can see the numbers there quite clearly.

New business excluding automatic contribution increases up 8% on a very high base. Operating profits up 12% in the embedded value see performing very well, the value of the inputs up 20% or thereabout.

If you look at the rate of new business, interesting progression. I would say that 2007 or thereabout, I think that the integration is really well, there was kind of a change of paces you can see a 20% growth. Over the last number of years, they start a very difficult economic environment, Discovery Life continues to grow nicely in the year, the period under review, I think the growth has been very, very strong.

But I think the real story has been the kind of power of the Discovery Life model, integration of Vitality, the behavior effect on the policy holders has been quite, quite powerful. The reality, the value proposition goes like this, if you manage your health through Discovery Life, your premiums are going to come down. If you manage health through Vitality you're going to get higher pay back benefit, as you release actual reserve in a sense from that behavior.

And that's exactly what's happened. I hope you can see the analysis. But on the left hand side of the chart, the Vitality status has yield that people are moving quickly through the statuses. So Discovery Life policy holders are in a sense reacting to those incentives and working hard on Vitality and are hopefully getting healthy in the process. Their rate increases in the blue line at the bottom are coming down and feeling the benefits of that. And the payback benefits are massive, releasing literally over a billion we've released over a billion to policyholders to the payback structure.

The effect of that of course gives, we believe value for money to our customers, our policyholders. But fundamentally, what it does is it builds a more robust system. So if you look at the structure of Discovery Life, it's come down dramatically, escalating to the financial crisis and through many of our presentations we've spoken about how we're managing that. But I think one of the great things of the results have been a significant reduction. I mean, $0.10 or thereabout reduction in the Discovery Life. And that shows you can see it coming through. Despite of that, I think the financial crisis is closely still around.

And then on the right hand side the mortality experience has been tremendous. We keep saying our positive experience variances out of Discovery Life and I think the model is showing they're getting the right kind of selective effect, but and they're asking away, in and they're getting the right kind of selections as people move through the process.

So, despite the fact we keep improving the embedded value of assumption, the business keeps in a way outperforming it. And then to an extent, gets me to the next piece that I would like to mention, because we have made an explicit decision about investing the cash that Discovery Life spends, back into Discovery Life. And often times, we're getting to base out there with stakeholders, they're kind of the common sense about businesses, you got to be generating cash in our case in Discovery Life, we've done three. We've taken a view that it's a remarkable investment and we need to invest the cash back into the growth of Discovery Life.

Putting to context we invested in total outside from the Discovery Group into Discovery Life around 1.5 billion or thereabout 2 billion of outside capital into it, with interests making the present value is actually in the middle of the first chart is around 4 billion and there about.

We built up an embedded value of around 14 billion. So the return on that capital has been remarkable. And I think the exciting thing is if you look at the actual investment going forward, every rand that start of cash putting it back into Discovery Life, generates as you can see on the right hand side, plus 10, or plus 10% to 13%. There are very few areas we can invest that scale of money to that kind of return.

So our fundamental view, our strategic view, we needs to continue doing that and precisely what we've done is Discovery Life has been throwing out 600 million to 800 million of cash every year. It goes back into funding new business and you see that playing out. And I think going forward it doesn't require any external funding from Discovery. But we're going to continue that process we believe through building up an absolutely tremendous asset.

Now the question of course is, what is that asset contingent on? Investing equities is the function of the market how companies do geopolitical events, et cetera. Investing in Discovery Life what are you investing. Well, fundamentally output if you're investing in two one, one is -- and the other is mortality.

Now on the left side, I think that's a function of the economy and probably no difference other injections out there. But what's every exciting is that mortality I would argue is a fantastic guess. We know that insured life across the world are experiencing reduction in mortality. No matter what study you look at the Canadian Institute have actually got own statute relation basis of coming using illustrate the mortality levels are improving 2% year on Canadian situation. I think our experience is probably no different.

So there is an improving mortality level overtime. And I do believe that life insurance is a good bet. I think annuity is maybe the other way around if you kind of relying on people dying. So it's an interesting investment incentive. We're taking a bit on long-term mortality. And I'll put it to you that we have got confidence and in fact that's a good bet to take.

In addition to that, the workings of the Discovery Life product through the engagement, I'll ask a lot into that mortality traditional life insurance as you go on and you get healthier, healthy life seems to -- since people are going to stay. We're doing the opposite. The idea behind the Discovery Life structure, is that you're coming, resuming your good life, if you are going to Vitality, the rates go down. So, the healthy lives tend to get crossed down, particularly they need to pass the word from market, and if we get the right kind of selective that gave -- and taking place.

So by doing that, we have the opportunity not only to see mortality improve, but to the extent and to extent, lock in that morality through the Discovery Life Integrating System. So people are looking longer and the investment we make in Discovery Life should in the sense give the benefit stronger.

I don't think that -- is lost on the -- in the Discovery Health context I just showed you -- and other repaying for this longevity. So kind of two sides of the same coin, but I will put you that the Discovery Life investment is the right one, and strategically that's what we committed to doing.

It's also interesting that we're learning more about mortality and how we can influence it. One of the shocking things about Discovery show is getting people to drive better. The prices bring down the -- of motor vehicle accidents. Its got -- if you look at the mortality -- that's what you see on the screen that's a probability of death by age.

You can see it's kind of an accident hub as well known and then as you get older, the mortality level climbs up. If you break it down between motor vehicle accidents and other, you can see how prominent in realizing -- at early ages, in the years of typically 50% or more of the cause of the death and therefore work with Discovery show and -- ways of trying risk that will bring that down, we'll have a dramatic impact on mortality levels of same levels and ultimately on the investments we're making in Discovery Life.

So, I think the proximity are remarkably strong and then we're going to push ahead very strongly on that. And then one of the -- I've mentioned in the context of Discovery Life was just a very strong focus on distribution. We've been building a very strong quality agency force over the last number of years, during the period under review there has been an acceleration in that.

We have over 300 top quality agents. We are very careful as to how we're achieving it. You can see from the chart, just a relative growth. So in the period under review, a large amount of new business -- from agency posts. In the middle chart, you can see the rate of growth has been -- and then the value of new business coming out of the agency is in fact acceptable. So it's been straightly I think is getting real, real traction and well it is overall for the future prospects of Discovery Life.

Let me turn that to the emerging businesses and has been an excellent period for our emerging businesses, particularly here it's discovering that its had a staggering performance I think and it's a fairly linear performance in the sense that every thing has gone well.

I would argue, if you look at the numbers very, very strong, new business has grown really robustly. Interesting to break them in new business, you can see that single premiums has grown really well. The -- done well, in fact we -- the capital borrowings is a business we decide based on our funding requirement to slow that down in the second period under review.

So that has a mutual effect. If you look at the core new business growth it's actually staggering and the funds under management is about 22 billion of thereabout and that's going very, very quickly -- almost doubling in profit, almost doubling in assets under management.

And if you look at it graphically, you can see the relative growth of the assets and I do believe we can continue to do that. Now the question first is, what is driving out the profitability, what's driving superior margins. I'll -- to an extend all the hub upon which the business was -- have paid off.

So the main issue is, could we build a business that offered in a very commoditized market, proprietary products -- guiding to investors and the real parameter -- of people choosing our products and all are choosing Discovery funds, all are just going through us, it's a -- resort of external funds.

Now what you see on the right hand side of the screen is really the, in a rate of percentage of funds flying outside of Discovery. You can see it's is only about 12%, far better than we expected. So to a large extent, one of the real drivers of the performance is people using by choosing the product the Discovery -- and is building.

We also had excellent investment performance, the Discovery Equity Fund, I think is one of the top performance in that sector to try to far more many than into the other -- of consumer, extreme left hand side over the -- reflected a billion of funds, more than double its nearest competitor.

So, we're getting a lot of funds flowing through this and then from this fiscal -- was that coming this is getting scale. So you can see the unit cost have come dramatically from the launch of the business. We -- close to 60% of what they were and the offset of what that also drives that profitability.

And then finally to make the consistent market share, we have a very focused market kind of a retail discretionary savings market, but in total we're getting very good attraction and in terms of gross flows, we're getting 45% of the market; in terms of net flows, 9% to 10% of the market.

I think the penetration is excellent. I mean we are excited about our ability to continue to build of what I think is a very powerful, robust --

Let turn to the UK. And make the point that I think our performance in UK has been tremendous. I really do believe, we had the opportunity to go, Discovery Life business in the UK -- positioning of Vitality and to a large extent, despite the -- over the last few years, -- the business integrated, we haven't got Vitality embedded in a way we'd like to. So it's work in progress. But the performance I think has been really, really strong. And we're following the same recipe, the idea of -- the two on the Vitality -- and driving two very good -- businesses.

PruProtect has had a tremendous six months. In fact, the whole, entire calendar year has been remarkable. And what is great about PruProtect is, it's foundation work has been done. I believe its growth will accelerated. I believe its quality will accelerate. Every single thing we do -- tends to be working remarkably well. If you look at the numbers of PruProtect, new business up over 50%, 90,000 policies enforced, so really it's growing rapidly. Value of the new business very high, and the profitability is substantial, 115 million of profit in the six-month period over a loss in the previous period. So it really has dramatically sailed.

If you look at the rate of growth on the left hand side of policyholders, it's kind of almost an exponential growth. And in fact, it's actually accelerating if anything.

If you look at new business on the right hand side, quarter-by-quarter you can see that our last quarter was 60% higher from the first quarter. So we gained fantastic traction. I note the point before we estimate beginning on 8.5% to 9% of the IFA business life insurance market. So the company really is performing remarkably well.

The question of course is why and how do we keep that going. -- may sound simplistic, but is incredibly true and real. We simply are repeating the Discovery Life model in the UK in a very careful way. If you look at how Discovery Life evolved over the years, there have been a number of profound innovations using integration, use of dynamic pricing, how we structure to their illness benefits, the payback benefit.

All of these structures have been in essence rolled up in the UK carefully, tailored to the UK market to a large extent. We're taking the learnings and putting it down on the ground in the UK, doing it obviously quicker and in a much more focused way. But all of them, the two -- that sits here, that is Discovery Life, we're putting out -- and in a sense executing into the UK.

You know the distribution side of things, it's interesting, because the UK to a larger extent has gone more online, direct-to-market or DTM kind of distribution -- in a different way. Our view is this is a complex product --. And we've set upon essentially a peak in the franchise structure we have working in the South African model.

And that's exactly what you get in the UK. Today there are 12 franchises across the UK. You can see the rate of growth in the middle. In 2010 only two of the franchises in fact crossed that line, only two of the franchises in fact met their targets. In 2011 only two of them didn't meet their targets. You can see the rate of growth in fact has been quite staggering.

And resulting from this careful focus of product, on distribution, on careful underwriting, the quality has been remarkable and that has driven the profitability. So on the left hand side of the chart, you can see the trends levels, loss ratios are far lower in the --. You can see the mix of business have been fantastic. A large number of policies made their -- index linking, linking to inflation. In the UK that's not a common thing that drives profitability.

And then the right hand side you can see the incredible power of franchise channel. There's in the middle of 2010 a lot of our business came from the online DTM kind of process. Today two-thirds of the kind of -- franchise channel. High quality, high average premiums, full -- benefit and that's what we need to keep doing going forward.

If you look at the margin, the margin already in 2010 is around 11%. We want to increase that margin through business mix, through the quality of the business, through better claims experience, leading to lower reinsurance. So the margins climb dramatically to over 16%. I think the potential for PruProtect is quite remarkable.

Looking forward, there are a number of different dimensions upon which we'll be pushing the -- distribution, the franchise model itself has been tremendous, as I said. There are 12 franchises across the UK. We intend to accelerate that dramatically and have 20 by the end of this year. We've been appointed to -- banking panels. We can't disclose you who they are, but that will obviously drive new business going forward. PruProtect really is becoming a force in that market. There are a lot of large brokers who haven't been penetrated in that -- opportunity.

On the later stage -- it is interesting that the UK has shifted to fees-based remuneration for brokers on the investment side and therefore the loss of commissions means that many brokers are moving to the protection space -- bigger distribution channels for us and working hard on bringing those brokers in and educating them, getting PruProtect into their kind of tool chest.

And then finally the Vitality structure in the UK has been largely --. We've made a massive investment in building an entirely new Vitality structure. We're in the process of rolling that out, underpinning PruProtect.

So there's a huge amount of work to get done. PruProtect really is embryonic. But I think what's amazing about it, it's the -- quality and importantly from a capital perspective, it's funded through the -- structure. It's completely -- capital from a Discovery perspective.

Turning to PruHealth. PruHealth had a very successful period, I think at a very important period, the truth is we are halfway through digesting a very big acquisition a quite standard life healthcare just a year ago it's kind of small fish -- on a very big whale. Despite that the focus of the team has been on quality, obvious that the British Health Insurance market is complex you have this NHS, you have -- private medical insurance, you have a very difficult economic climate.

And as our view has been about focusing quality -- that product making sure our loss ratios are low and therefore right into the acquisition segment the required -- existing business get rid off that groups and to an extent bring the loss shutdown and get the financial dynamics right.

And that's precisely what we have done if you look at the dry parts of the loss ratio of the -- cost expenses -- gone remarkably well. The -- and our new business has shrunk somewhat and the book has shrunk somewhat and that's -- going forward. But I felt and I our team feels very strongly the fundamental focus is on quality and financial strength. And in fact if you look at all the different areas I think the work done is remarkably successful.

On the training said a kind of volatile line with -- kind of month-by-month --. You can see that is kind of in the range, but on the -- above that blue line is the premium line you've -- so we crossing out business quite substantially in the right hand side you can see the levels of the credit loss ratios coming down significantly. Particularly food and healthcare, we feel that's under -- to both loss ratio 10%.

We focused hard on -- that business in the correct way. In addition to that we have reached -- about completely volatility has come down in cost by 80%. Although learning from the South African model use of the -- volatility premium if you go and reached the benefit has been deployed in the UK and therefore we believe -- volatility in a very rich exciting form that are followed across.

And then finally the graph on expenses this is an area of great opportunity remain acquisition. But we are onto one -- the ability to share expenses off course very, very real. You can see spends have come down somewhat but there is about £100 million or so on the expense we believe once we get onto -- was a total bottom -line, so that will take 18 months -- I believe but the embedded potential that off course is very, very real.

We really should be focused on -- crossing the business up you can see there has been a moderating effect on the new business as I have said new business down about 13% versus the previous period. But what we have done is we have been relatively ruthless on that groups, on the right hand side of that chart is really the left side for loss ratio. So if you see as the loss ratio gets worse, the -- is higher.

So we are crossing out that books and I believe will continue to do it, to make sure that the businesses we have is of sale, is of great quality. So when we went into the standard life healthcare position near about 700,000 lives in total. We assumed we would loose kind of a bunch of the large -- acquisition short less and then we kind of drift down, what's happened in the goal is slightly -- experience the shortlist we are passing out book so the book has shrunk slightly but the quality is quite exceptional. And therefore I figured we have -- foundation of very profitable business of sale and therefore I think to continue to innovate. We are building out the Vitality structure that I said before for both PruHealth and PruProtect is remarkably strong.

The Vitality structure itself takes all the of the learning that we had in -- in the UK, so all of personal -- the clinical tools actual tools, we've done some amazing work on the partner side partnering with Vodafone, we did -- cell phones and several partners version actively we continue that process began in South Africa and the -- I think is remarkably powerful from that. We also have for an economy that is very online savvy, very powerful online tool that actually -- Vitality offering based on age, facing -- et cetera. So it's a very, very powerful capability.

The other exciting cap with Vitality is that we are actually embedding it into the standard life book so as that book of 0.5 million lies unused -- Vitality if that works in the sense that brings down -- and drives up with mobility profits but offers great opportunities to do that elsewhere. So I think that may open up a very exciting opportunity to Discovery. And then the final point I'd make is just the expense savings that we believe we can achieve. And I think -- comes through that -- bottom-line. So we have spent a lot of common liking to help in the correct way I think the opportunities are quite significant.

And so to sum up I think in the UK the business are both very robust I think the performance in Discovery we really believe in -- and we have created offers a real opportunity to start the process of doing about Discovery like business in the UK. -- the last part of our presentation I mean moving very quickly I hope your following it and that's turning to the new businesses, where I think there is considerable and excitement and fantastic opportunity. -- that Discovery ensure really only a couple of month all it's been a kind of a fairytale roll out.

I think the recent activity to the product has been tremendous driving at the new business of 180 million just over the period. We have seen acceleration now in the new business -- and you do a 150 cases in the last day. It really is getting good traction. And for long stay, austerity I think has been right, where we're focusing of in a very comprehensive personal lines, set the coverage. But the core idea is could we extend Vitality into how people drive? Could we extend the behavioral ideas making people better drivers?

And the process of doing that, creating inspiring role and changing mortality in the process. And I'll bet, we think we can. So, the business was kind of rolled out on that basis. But there were a few hypothesis and I think they are quite important, and I would like to take it. You can see graphically, the rate of new business flows, you can see has been very strong month by month. And very importantly, the distribution channels are very ill-formed at this stage. We got lot of work to do on the distribution site. On the right hand side, I've just given you a distribution of where the business is coming from. So relatively impacting steady sales. Our broker channels are not yet firing. We're training brokers, we're getting our channels aligned. A lot of work in progress, there is great potential.

But it is really is about discovering show has been about building a business that's a disruptive business. And it's based on a number of hypothesis, where going in, I think we're not clear. We felt we could achieve it, but it wasn't there at the outset. The first is the issue of telematics and could we make the use of telematics a main stream kind of business.

Now we know that payors who drive insurance models out there, they are doing very well overseas. But that's inherently a niche, the main stream is not doing that yet. Our bet was, could we make this a main stream idea that every call we cover at telematics is tracked, is incentivised in the right way. And what's amazing is it's proved to be very easy to do.

98% of our policy holders are cashing Vitality drivers, that's the choice, you don't have to have it. You can choose to go without it. You can see on the right hand side in the chart, that it's been a constant take. So you see every single gross in my understanding should, buys it, gets to the Vitality piece of it, pays for it and is a part of the process of tracking data and et cetera, et cetera. So, we believe very strongly we can result and create a mainstream business through pricing.

The second hypothesis and while it has not been that easy to over come has been that when you understand insurance and the broker channels and what you need do is a very complex new business process. Now, if you're doing a hundred cases, about a hundred calls a day, the ability to get telematics devices installed, getting data out, the accuracy, the whole complexity around it. The sign can is very difficult operations. That is a very complex thing for us to do. We spend a number of months getting that right.

You can see the number of cases coming through. You got to install a hundred of the devices a day, make sure they're operating role makes should the science is working. We can see the turnaround time that we saw in the middle was quite long, taking a couple of weeks to get it done.

Today we now have the chassis, the structures that people out on the street when in a sense we're getting it installed with a negative entry, because we're getting in the store quicker than people are coming online. So making sure on the day they come on it, they have the device installed. It's working and they're moving on.

And then the final point, the satisfaction service from customers, it's a complex process, to bring new costs, all the factors that comes through with it.

The member -- customers are particularly happy with the process now. Start in a very complex way where you do have a lot earnings on the process. To a lot of extent I think in operational chassis is remarkably robust now and gives us the opportunity to grow.

And then the final hypothesis was, could we kind of get the HealthyFood mindset into BP. Could we get the same kind of structures working with people filling up their cars, they will tie -- could we get a reward structure that was easy to access. And that would obviously have manage to achieve this.

A number of people going for part of willing, card checks, there are 10,000 policyholders already over last few months. It's close to half the base. Amazingly on the right hand side, if you look at BP, BP is market share is about 20% and our customer base it's close to 80% as you can see. So people are immediately moving and using the benefits that we're providing and to a large extent this funds incentives.

So to a large extent, if you look at the hypothesis we should move the business, I think they have come true of think very powerful foundation to build the business of scale and profitability. But I'm going to mention, that we have things, just say to you that I think the ability to get, to build a quality business is real.

If you look at the top part of clients that are buying the products they are Discovery members. But they are Discovery call, the quality of these members and how they operate is remarkable. Our customer base is of great quality.

If you look at the kind of people that are buying it for number of Discovery products that they have the modal point is three products or more. For an average people that are buying Discovery or Discovery disciplines, they're using our product. They engage in Vitality and they're going to do the same in Discovery.

We're also looking at how they're responding to these centers, it's actually quite remarkable. We've followed a cohort of lives, from the August new business actually had a fair volume and we had a two month we could hide that. It is quite remarkable 70% of them were engaged. I mean they've already engaged in the system. You can see fast acceleration, fast breaking, speeding came down dramatically. They're responding to the incentives and of course that's very important.

And then finally, are we incentivising the right kind of behavior, I'll put it to you, we are. If you look at the loss ratios by breaking by speeding, by accelerating, the worst you do, the worst risk you present. And so we're getting people in to the quality, there was funding for the incentives and the things that we incentivize them, came to be the right things. And then the follow-up with our -- custom base are possessing amazing pricing capability.

So -- Vitality came to better drivers. So if you look at people that we call -- drivers, the majority are gold members, -- members. So we have kind of lot of waited, I understand who will do what and how we -- premium is coming out of it. So really, I do believe we have a -- we've had a fantastic swap.

There is a lot of work to be done, but I think the opportunity to disrupt and build the business of scale and value is real and in terms of -- I've seen an amazing six months. I mean China -- and to a large extent, we spent the year, the calendar year setting the team down, taking market across getting the assistance across really foundational stuff.

Our product and structures Vitality is not yet out in China, despite the business got amazing traction as you can see, doubling of premiums in terms of last covered 450,000, more than double. There is real traction, the loss ratio also low, there just seems to be an amazing market where we need penetration and that offers great, great potential for us.

If you look at the extra loss covered month-by-month, that's what it looks like. So the growth has been quite staggering and I think potential to continue that is quite remarkable. In terms of the bronze network, we started after the three big launches; Beijing, Shanghai and Guangzhou.

In Beijing and Shanghai, particularly is where the critical mess is, but we extended those launches out to other territories that two bronze stand in the next year and these like front account of markets where importantly self service product, access to checkup and back that -- health insurance the potential I think is quite remarkable.

Te bronzes are performing well, by meeting the targets in the main, I think the ability to continue to do that is very, very strong. But the truth is, we're just starting out. The business really is just embryonic. So the focus going forward, industry together with -- is about three distinct things. One is the group, what I call the group high-end market, covering Goldman Sachs over the world, Goldman Sachs is a client with us, covering big groups at the high-end.

And our goal is simple, being number in that market. We're competing with foreign companies NSH, a french carrier, Signa from U.S. -- from U.S. The thing on, is the ultimate insider in China. And our ability to use that to get market share is quite remarkable. So we have a very broad goal together with being number one in that space.

The second strategy is about the individual health insurance market. Ping An has 500,000 agents selling huge amount of life insurance and health insurance drivers. We are targeting products and structures to make sure we get traction in that market and then finally in the product development side, we are running out Vitality, in two months time, we've done a lot of work in a very, I think exciting, powerful Vitality strategy, with -- doing. So it really is embryonic but I think the traction has been remarkable and we are very excited about what we can achieve in China.

Let me end up with the U.S. venture the Vitality Group and predominantly HumanaVitality JV. Over the six months, we've had considerable growth. We had two distinct structures in the U.S. Our own Vitality Group is focused on taking Vitality and putting into large corporates who had tremendous traction with their customers as you can see and fantastic engagement and health results coming out of it.

But the real story I think is HumanaVitality. They are trying to take Vitality and do to it what we've done in the -- embed it into the insurance products. They're moving on a rapid rate is really 1.1 million members that could have 300,000 members I think during February. So they're moving very, very quickly.

The opportunities of us, you can see the growth rate -- is saving and exciting thing is that America is the epicenter of wellness. So we are taking the opportunity with the scale of Humana to build a massive wellness network in U.S. You think about the selection capability is powerful, but we're doing domestically more linking to these management companies linking to Germany, China, across the U.S. linking to the -- companies to make sure they're all integrated into the Vitality technology.

Our German network today is 14,000 -- usage you can see, partly everyone is using the scale of Humana to build the network. We're going to follow the health of -- so we are building a very, very powerful -- opportunities there are quite substantial. So let me then go -- time, it has been a very, very busy period.

I think successful period, our established businesses have done well and robust, are emerging and I think we had a fantastic period particularly in UK and our new businesses of a fantastic opportunity to grab going forward. I think we worked on across the different geographies has been successful and -- off the Discovery team and -- to give me continued -- growth going forward.

I've completed my presentation. If you are comfortable, I'd like to invite Richard Farber, our CFO on to the stage with me to take question. Our entire executive team is here. So I appreciate you listening, we're going to want to thank Discovery people for incredible work that they've done. Thank you.

Questions And Answers

A - Corporate Participant

So we have, I think Mike, if you have the answers facilitate questions by various and take them as they come?

Q - Michael Christelis {BIO 15233664 <GO>}

Hi Adrian. Mike Christelis from UBS. Just looking at your Vitality numbers, obviously, you breakeven, but your engagement dramatically increased particularly on flights. At what point does Vitality's sustainability at the current premium come into question? Clearly, it certainly looks like cross subsidies are starting to pull away?

A - Adrian Gore {BIO 3068929 <GO>}

The sustainability I don't think is in question. Reality is over the period, we allowed engagement in certain areas to dramatically increase. That has a very positive effect on the entire group. But structures can and have been changing. So we needed to make sure that they can be afforded going forth. So I don't believe that there is any real risk of requiring cross subsidies, the premiums of Vitality gives a benefit of sustainable going forward.

In fact I think they need to be, this year you will see profit emerging out of Vitality.

Q - David Danilowitz {BIO 5103235 <GO>}

Hi Adrian, Dave Danilowitz.

Two questions. First of all, you spoke about the health target of fee target of 9% that you had set. Is that an internal target that you set or is that discussion with regulator to any degree and do have a sense of what that might look like going forward?

A - Adrian Gore {BIO 3068929 <GO>}

Dave, it's an internal target. And I mean I think we committed as the scheme gets bigger and bigger and we can achieve efficiencies. We should bring those fees down. There is constant discussion in the regulator about the administration and what they should be. And of course, the regulating take a view that the load out, the better I will get. But we continuously set targets and try and achieve them.

I do think that at those levels they are competitive. I think if you look in any markets around the world and particularly Obama healthcare reforms, there is a need to about 80% after healthcare, because health insurers are set that there is a 20% non-health expenditures.

So when you have 9% or thereabout, you have the managed care fees and broker we're very competitive. So, it's an internal target, we I think will continue to do that if we can. But it's a process we run. The more efficient we can be, and the more the new members, the better we'll do. But I think the system is robust. I think it's a good call for draw.

Q - David Danilowitz {BIO 5103235 <GO>}

Thanks. The second is a little bit more philosophical. You've spoken about the desire to invest in the South African life business in terms of the returns you'll get out of that. The UK strategy and you protected very well over this period of time, the UK strategy is one more caps for life. If you had quite of more capital available would that be your preference and really can you talk to what the cash flow portfolio of the business looks like, given your capital life's approach.

A - Adrian Gore {BIO 3068929 <GO>}

In fact, a couple of life approaches, not a function of capital availability. It's a function of prudence I think. I think in the South African space we have a massive franchise, with great sense of comfort about every single aspect, our views at the invest capital shade into it and I'm sitting for on the discovery shares value and that's considerable enough, and we'll continue to do so with all that business.

I think internationally, if we felt that there was a good use of capital, we acquired health care, that's fairly capital heavy to an extent, we'll do it. So the capital life, capital heavy is not a rule. It's kind of a guideline based on prudence and availability.

I would like to believe that if Discovery founded opportunity and required capital, we could raise it. So, it's largely driven by in the same strategic opportunity. I think our basic philosophies in markets that are foreign start-up from a ground up on its own about a part may is risky. And therefore, the approach has been to use the partner and in that case, the partner that we bring out is the ability of the partner should be in the capital.

So the PruProtect is kind of almost a model case for what can we achieve and the cash that's coming out of this quite significant. So PruProtect is throwing out cash, because the structure would be potential. And then it hurts you, if you're going to comment on that particular issue. But it's really a considerable amount of cash whether we can illustrate to you. So it's not a kind of philosophy we have taken. I have done it to be a kind of a cost in stone issue, if opportunities came about that required considerable capital we've got comfortable, we may do it. But it's not a much case cap loading through my prudent.

Q - David Danilowitz {BIO 5103235 <GO>}

Thank you.

Q - Analyst

Mr. Gore, fee income from admin business is very constant at 2 billion for each of the last three six month periods. Now, with increasing business one would expect that fee income to increase accordingly. The fact that it doesn't, means I believe, is this correct, that you have reduced your fee income from -- business?

A - Corporate Participant

If I may answer, there is a cheap locality that not quite apparent to results. I think sort of last year we earned 50% of the -- health joint-venture and we do operations in South

Africa and for that joint-venture other wise it we is that you the corpus inter company half. But the other half is treated is on his name and with in two day's income. So our fee income previously included half of the services that we are living in South Africa to the UK. So it's not a fair comparison here.

Q - Analyst

Okay. remaining with the stating the confluence of the income towards the end on page seven the item other comprehensive negative income shows deposits of 280 against the previous period of a negative 435. What's the background to that?

A - Corporate Participant

Okay the background to that is foreign currency and the biggest function in the net particularly table of you see about is the that's called currency consolation difference. Basically we obviously have a fair amount of operations in UK and in comparative period the range strengthening against the pound and we incurred losses on that in this period of end weakened against the pound.

Q - Analyst

Got it. Thank you. It's still now please to the balance in page eight. The money the financial assets money markets section shows an increase of over 2 billion and when I couple that with cash and cash equivalence the total increase for those to items is the order to 1.4 billion. Why is it you are holding so much in cash and how much of that is overseas?

A - Corporate Participant

Okay. The -- so the total amount as you correctly pointed out those figures of that about 1.4 billion little bit more some of the cash is well is setting with policy offers. So that's actually discovering waste policy that have been sold sitting in our balance sheet and the bulk, a fair chunk of that cash is to support the regulated businesses. So the two -- in particular is discovery life which is sitting at about 800 million and in the UK the PruHealth business which is sitting with about a £150 million so between them just charge 2 billion range.

Q - Analyst

Thank you. Turning to the cash flow statement there is an item of nearly 2 billion that wins out for net purchases has that to do with the standard life acquisition?

A - Corporate Participant

No, the standard life acquisition is in the prior period and that's what we did in the particular period is and it's kind of what you asked in the previous question. Is we took some of the cash and invested in more mediums and money marketing instruments and those effects in the new from cash to money market and show in the best part.

Q - Analyst

Got it. Finally please, the thing end story you told that from nothing you now have 430 lives covered and it is mentioned earlier that a year was spent setting up at team and putting infrastructures in place, this is from page five. Now speaking of establishing the team, is this a reference to South Africans who have been sub-codded to China or is it a question of training the locals to be able to handle your systems?

A - Corporate Participant

So I wasn't clear PruHealth is a small -- company -- in it. The basis behind the JV was that we bring in a small team out in South Africa, settle in, in there and help build the company. So the company has been and moving along the so I was referring to IT coming in and second year and working with the other team. So it wouldn't be fair attribute that growths that is a at business. There is a team working right our team --, so I think the real benefits that our team see coming in the next year going forward.

Q - Analyst

The opportunity is obviously mind boggling and to speak of that by speaking of considerable high-end and individually insurance business. Do you foresee any problems with differences in culture, languages certainty that it works the way you want it to work.

A - Corporate Participant

I think there are considerable difficulties and challenges. The COGS is different and our people and we are learning a lot about how to interfacing, how to work in the right way.

Having said that, I think the strength of the business -- in the quality of -- the company. So we're beginning with a partner that is governed well, that is incredibly sophisticated in its governance, in its actual methodologies, in its approval, its approval process. One of the things you might see is the operating losses in the business -- are far lower than we expected. And that's driven by very tight expense control, -- than we've seen.

So the -- I think is, it's a very foreign environment, but you're relying on the quality of the partner and I think -- about how to manage that carefully. But I will tell you, the two fundamental aspects of the business -- loan loss ratios -- financial discipline, and that extends to all those types of -- budget.

So we're learning a lot. It is very -- fantastic partner.

Q - Analyst

I trust just a -- for this division.

A - Corporate Participant

It sounds like a warning. Thank you.

Q - Analyst

Thank you.

I've got two questions. Firstly, has the -- improved? And more importantly, how's -- driving after this?

A - Corporate Participant

We are driving --, so this business is close to my heart. And I'll go to actual -- but you shouldn't be measuring. But in fact my driving -- has quite improved.

Any further? Over there. Last question I think. We -- anyway, so please ask two, and one there.

Q - Analyst

-- from Standard Bank. Firstly, I would like to hear any comments around the healthcare in general in South Africa, because -- quite a bit -- you guys are doing a great job and I think the press is really one-sided against the medical schemes often. So it's nice to hear your comment.

Just second, I was going to ask a few questions. The first go to Ricky. The preference shares, are you going to -- those up 15% or 10% in light of yesterday's budget?

A - Corporate Participant

It's an interesting question. We've had quite a lot of discussions this morning about -- I'm not going to give you a definitive answer. I mean, quite obviously we were least surprised as everyone else yesterday afternoon when dividends tax came in at 15%.

We'll have that discussion. We've really started the process of getting -- what we need to do. And we'll have a discussion with our Board later in the week and early next week and I'll put an announcement.

Q - Analyst

Okay. And the second one is, what is that -- second tier margins available at the moment in the Life business? -- idea of sort of protection of earnings going forward?

A - Corporate Participant

Are you comfortable, I don't know, Neville or Herschel, can you --? Just give him a mic. Can I suggest that telling you in the discussions of our team, we can maybe interrogate further.

Q - Analyst

Alright. And the last question is directed to Adrian, is that, under -- possibility of building additional businesses on to that? And I just wanted to clarify something. In terms of the credit risk on the cards that you distribute for FNB, do you have any -- at the moment on the credit side?

And the second thing is, is unsecured lending a business that attracts Discovery in any way?

A - Corporate Participant

Firstly, the Card has been a very successful JV. So, it's something that we're intimately involved in managing in every respect. And I think that the -- FNB has been successful.

We do have an exposure to --. So, we have -- the business is made up of two pieces, one of them is the Vitality business. All the fees in the structure that happen, that creates some profitability. The other is the actual lending book. And note that we get 20% on the --. So we do have skin in the game in that regard. And I think there's pieces of it that's worked remarkably well.

The second question on asset --. General view is no. I think our ability at Discovery is more creating liabilities, attracting funds -- we wouldn't do that. But I do think the opportunities going forward are directing around that capability around the Discovery Card.

But I've said enough. A lot of work to be done and we're not sure where we're heading yet. So I think there's a great opportunity there.

Can I -- last question, then I'm going to wrap it up. Just in the middle there, thank you.

Q - Analyst

On your balance sheet there's an item called principle non-controlling interest of 2.7 billion, which is a very large number relative to your equity. Could you explain exactly what that is in the -- as it relates to embedded value?

A - Corporate Participant

The amount economy take it separately. -- in the last reporting period and we went through -- quite a lot of detail. So it's just to -- relates to the loans that we go down that close all through --. And I invite you if have any questions after that.

It's quite a complicated...[Call Ends Abruptly].