CONDUIT CAPITAL LIMITED
Incorporated in the Republic of South Africa
(Registration number: 1998/017351/06)
Share code: CND ISIN: ZAE000073128
("Conduit" or "Conduit Capital" or "the Group" or "the Company")

CONDENSED CONSOLIDATED REVIEWED RESULTS FOR THE YEAR ENDED 30 JUNE 2019

LETTER FROM THE CEO TO THE SHAREHOLDERS OF CONDUIT CAPITAL:

Dear fellow Shareholder,

Conduit Capital is a Johannesburg Stock Exchange listed insurance investment holding company. Our business is primarily involved in the insurance industry. We divide our company into two segments: Insurance and Investments. The Insurance segment houses the Constantia Insurance Group, our wholly owned insurance business operating across three insurance licenses. The Investment segment comprises investments in public and private companies designed to support the capital needs of the insurance companies. Investments include non-risk-taking adjacent insurance-related opportunities.

Conduit's vision is to build a profitable, diversified insurance group over the long-term, supported by a value-oriented, non-insurance investment portfolio of public and private investments. Our goal is to increase long-term intrinsic value per share. Intrinsic value refers to the actual value of a company determined through fundamental analysis without reference to its market value. Intrinsic value can vary significantly from market value. We believe in building our business over many decades in order to create a global insurance business. Our approach is to position Conduit and its investments for optimal long-term compounding without overdue reliance on short-term financial results. Our long-term focus is not for everyone, and we expect short-term volatility in our results and in our share price. Fortunately, however, we have a core base of shareholders who share in our ambition to create a special South African company in the hands of a forward-thinking, driven insurance management team that enables the people in our ecosystem to deliver significant value over time.

MEASURING PERFORMANCE

Conduit's performance is best measured by its growth in intrinsic value per share. In the past, we suggested that growth in net asset value per share was a reasonable proxy for the growth in intrinsic value per share. However, this year the relationship does not hold. Conduit's net asset value per share declined 45.1%, but in our opinion, the intrinsic value of our business increased because of the capacity we have installed for future growth. This year is an example of the effects that volatility in the underwriting result and mark-to-market equity returns (which in our view bear limited resemblance to underlying intrinsic value) can have on our reported results.

For consistency purposes we show the below table which illustrates our performance per share since the Group's strategy changed in June 2015:

Table 1

Date	NAV (cents)	% change	Float (cents)	% change	Investments held at fair value (cents)	% change	Cash (cents)	% change	Share price per last trade (cents)	% change	JSE All Share Index (incl. dividend yield)	% change
30 Jun '15	174.8		36.5		40.7		122.1		220		51 806.95	
30 Jun '16	169.5	(3.0%)	19.7	(46.0%)	74.6	83.3%	82.2	(32.7%)	275	25.0%	53 735.66	3.7%

Date	NAV (cents)	% change	Float (cents)	% change	Invest-ments held at fair value (cents)	% change	Cash (cents)	% change	Share price per last trade (cents)	% change	JSE All Share Index (incl. dividend yield)	% change
30 Jun '17	175.5	3.5%	24.1	22.3%	154.7	107.4%	38.6	(53.0%)	240	(12.7%)	54 664.28	1.7%
30 Jun '18	198.0	12.8%	28.2	17.0%	172.7	11.6%	48.2	24.9%	198	(17.5%)	62 637.27	14.6%
30 Jun '19	104.4	(47.3%)	32.9	16.7%	120.3	(30.3%)	27.8	(42.3%)	134	(32.3%)	65,317.56	4.3%
Average annual		(12.1%)		(2.6%)		31.1%		(30.9%)		(11.7%)		6.0%
Since inception		(40.3%)		(9.9%)		195.6%		(77.2%)		(39.1%)		26.1%

Unpacking the Results

The Insurance segment is comprised of Constantia Insurance Company Limited, Constantia Life Limited and Constantia Life & Health Assurance Company Limited (collectively referred to as Constantia). We are one of the few companies in South Africa with access to multiple insurance licences. Constantia offers insurance and risk management solutions, covering areas such as medical malpractice, primary health insurance and medical gap cover products, funeral and life insurance, guarantee and indemnity solutions, medical evacuation insurance, property and casualty, heavy commercial vehicle, small business and other niche lines. Conduit owns 100% of Constantia.

Constantia operates as an independent and decentralised company, with its own board of directors and Chief Executive Officer. Constantia's products are distributed through underwriting management agencies ("UMAs"), administrator managed (binder based) broker distribution, and certain direct broker relationships. UMAs are generally incentivised on a cost recovery basis (calculated as a percentage of premium) and profit share arrangements. Over the past three years we have invested significantly in capacity, skills and infrastructure at Constantia to improve the underwriting, distribution and innovation capability, to build our competitive advantage.

Constantia's Performance

Constantia uses solvency relief reinsurance contracts to reduce the amount of capital required to support its gross written premium. This results in a decrease in net written premium and a simultaneous increase in the insurer's return on invested capital. These solvency relief contracts relieve the Group of onerous capital requirements by ceding marginally profitable (on a return on capital basis) gross premium in exchange for lower capital requirements. The net premiums reported in our financial statements therefore understate the actual level of net written premiums. It is more accurate to look at the business on a "solvency reinsurance normalised" basis, as Table 2 below illustrates.

The *pro forma* information in Tables 2 and 3 below is presented to demonstrate the effect on the Group's reported results if the net impact of all solvency reinsurance were reflected as a single line item. The solvency reinsurance normalised information is the responsibility of the Group's Board of Directors and is presented for illustrative purposes only. Due to the nature of this information, it may not fairly present the Group's financial position, changes in equity and results of operations or cash flows. The *pro forma* information has been compiled in terms of the JSE Limited ("JSE") Listings Requirements and the Revised Guide on Pro Forma Information by SAICA and the accounting policies of the Group as at 30 June 2019. The illustrative solvency reinsurance normalised information has been derived from the Group's reviewed financial information and has been reported on in an independent Reporting Accountant's assurance report which can be found on the Group's website at www.conduitcapital.co.za.

Table 2

	Year ended 30 June 2019			Year ended 30 June 2018		
	As reported R'000	*Pro forma* adjustment R'000	Solvency reinsurance normalised R'000	As reported R'000	*Pro forma* adjustment R'000	Solvency reinsurance normalised R'000
Gross written premium	2 050 653	-	2 050 653	1 536 885	-	1 536 885
Reinsurance premium[1]	(1 662 784)	1 560 993	(101 791)	(1 144 341)	880 751	(263 590)
Net written premium	387 869	1 560 993	1 948 862	392 544	880 751	1 273 295
Net change in provision for unearned premium[2]	(21 598)	(39 483)	(61 081)	(716)	(19 962)	(20 678)
Net premium income	366 271	1 521 510	1 887 781	391 828	860 789	1 252 617
Reinsurance commission received[3]	484 456	(462 645)	21 811	532 035	(379 260)	152 775
Other income	31 688	-	31 688	53 440	-	53 440
Income from insurance operations	882 415	1 058 865	1 941 280	977 303	481 529	1,458,832
Total insurance expenses	(1 169 925)	(1 030 767)	(2 200 692)	(1 118 381)	(469 099)	(1 587 480)
Net claims and movement in claims reserves[4]	(157 535)	(1 030 767)	(1 188 302)	(245 919)	(466 957)	(712 876)
Insurance contract acquisition costs	(295 322)	-	(295 322)	(257 035)	-	(257 035)
Administration and marketing expense[5]	(697 248)	-	(697 248)	(604 854)	(2 142)	(606 996)
Other expenses	(19 820)	-	(19 820)	(10 573)	-	(10 573)
Net underwriting loss	(287 510)	28 098	(259 412)	(141 078)	12 430	(128 648)
Cost of solvency reinsurance[6]	-	(28 098)	(28 098)	-	(12 430)	(12 430)
Net insurance result	(287 510)	-	(287 510)	(141 078)	-	(141 078)

Table 3 below reflects Constantia's gross and net premiums adjusted for solvency reinsurance by line, together with the net underwriting margin for the period under review and the comparative period:

Table 3

	Year ended 30 June 2019			Year ended 30 June 2018		
	Gross R'000	Net excl. solvency reinsurance R'000	Net under-writing result R'000	Gross R'000	Net excl. solvency reinsurance R'000	Under-writing result R'000
Assistance	25 292	25 088	(418)	98 993	98 745	9 895
Group risk	50 933	34 691	(30 052)	-	-	-
Accident and Health	936 403	921 785	6 937	836 161	784 603	(39 231)
Aviation	16 302	3 128	(2 403)	-	-	-
Guarantee	30 031	18 342	3 999	26 236	13 755	4 336
Liability	181 607	160 158	27 538	92 290	65 092	(18 284)
Miscellaneous	4 621	3 898	(2 794)	52 865	28 483	(9 885)
Motor	583 008	567 071	(181 140)	298 359	231 644	(52 570)
Property	215 916	208 254	(35 566)	131 981	50 973	(19 130)
Transport	6 540	6 447	(3 658)	-	-	-
Unallocated	-	-	(41 855)	-	-	(3 779)
Underwriting result	2 050 653	1 948 862	(259 412)	1 536 885	1 273 295	(128 648)
Cost of solvency reinsurance	-	-	(28 098)	-	-	(12 430)
Net insurance result	2 050 653	1 948 862	(287 510)	1 536 885	1 273 295	(141 078)

[1] Write back solvency reinsurance premium as if the solvency reinsurance structures were not in place.
[2] Reverse unearned premium reserve movements relating to solvency reinsurance.
[3] Write back all commissions and profit commissions received from solvency reinsurers.
[4] Constantia assumes all claims and claims provisions settled by solvency reinsurers.
[5] Profit commission adjustment relating to specific unearned premium adjustments associated with solvency reinsurance.
[6] Account for the cost impact of solvency reinsurance.

Constantia continues to reinvest in its own business to adequately resource itself for growth and profitability. Since I joined Conduit, insurance premiums have grown from R788 million in 2015 to R2.05 billion in 2019. The bare-bones business model of 2015 has been developed into a substantial operation. Our five-year strategy should see our business grow to over R3.5 billion in premiums at a 95% (or better) combined ratio. The combined ratio is calculated as net claims plus expenses divided by net earned premium. At Constantia, there have been many wins in our short time so far. However, growing an insurance business (or any company) is not easy, and we experienced some challenges. The building of our Property and Casualty (or "P&C") business, basically from scratch, was expected to strain our capital resources and created the risk of producing adverse underwriting results as we built internal capacity to intervene and improve these books. P&C has cost us more than we expected and has taken longer than anticipated to sustainably achieve acceptable loss ratios. However, the costs we have incurred to build an annualised R1.00 billion P&C business with a high medium-term likelihood of achieving our combined ratio targets is, so far, well below what most other insurers have spent to achieve a similar size book.

The positive underwriting result in some of our other lines and much of the P&C book was offset by approximately eight books where the motor underwriting result fell well below expectation. In some cases, we were not diligent enough in new book take-on procedures, were not fast enough to intervene where necessary or were not efficient in our intervention or had not yet fully developed all the appropriate tools to intervene at the time intervention was required. Ongoing remediation and intervention continues in these books, and some have been cancelled. Individuals who failed to execute in line with company directive have been held accountable, been disciplined or moved on. While our infrastructure and resources are finally getting much closer to where we want and need them to be, and we now understand these books better than before, our overall underwriting capability must still improve. In June 2019 our P&C loss ratio for the month (before IBNR[7]) was 69.6%, which was an improvement from an average of 78.6% for the year. From 1 September 2019 we hired a new Chief Underwriting Manager who now works with our newly expanded in-house actuarial department to rapidly improve our underwriting capability. We are confident the P&C business will revert to expected loss ratios in the short- to medium-term.

Our medical malpractice group (EthiQal and Natmed) made substantial progress in changing the high cost and adversarial malpractice model in South Africa. This business, which only began in 2017, is changing the way medical professionals are protected in South Africa. Nationwide there is a growing shortage of sustainable medical practices due to unaffordable insurance protection. Our partnership with doctors and comprehensive risk management framework has provided a real South African solution to the problem. This business now insures 25% of South Africa's specialists. Almost R100 million was invested in this business in the first two years to establish technical and reinsurance capacity, and we are pleased that premiums now moderately exceed costs and claims reserves. Given our recent entry and the long-tail nature of this cover, it will take some time for us to fully understand how claims will develop into the future. However, with the assistance and experience of our professional reinsurers we believe that we are adequately reserved and sufficiently protected against adverse claims experience.

Our Health portfolio, which includes partnerships with Ambledown Health (medical gap cover), OracleMed (medical evacuation) and Unity Health (primary healthcare) delivered a R46.2 million improvement in net underwriting profit and a 99.3% (2018: 104.7%) overall combined ratio. Health represents about 45.7% of our business by gross premium, and we see significant opportunities in the healthcare space, including but not limited to the introduction of the new National Health Insurance.

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[7] Incurred but Not Reported Claims. This is an estimate of claims we have incurred but that have not yet been reported.

Constantia's capital base decreased due to a combination of losses suffered in motor lines in our P&C books and lower equity values (expanded upon above and below, respectively). During the financial year under review and up to the time of writing, Conduit had recapitalised Constantia with R230 million, with further liquidity arrangements also being put in place.

At year-end Constantia had an equity portfolio with a JSE market value of almost R800 million. This portfolio however attracts risk charges under Solvency Assessment and Management ("SAM"), which limits the amount of capital that qualifies for solvency purposes. We have plenty of capital at Constantia; the opportunity is to optimise the capital base in the context of a growing insurance business. Fortunately, we have many tools and the support of our key shareholders to ensure Constantia always remains adequately capitalised.

<u>Measuring Constantia's Performance - Quantitative</u>

We use three key metrics to monitor Constantia's quantitative performance. These are:

Combined ratio

The combined ratio measures the sum of the net loss ratio and the expense ratio of an insurance company relative to net earned premium. The ratio determines whether Constantia's insurance book is profitable. It also measures the "cost" of the investable assets (float) produced by our insurance business that are available for investment. A ratio below 100% means our investable assets cost us nothing to generate (compared to, for example, debt financing at prime interest rates). The lower the ratio the better, as it means we are creating investable assets at no cost. Constantia's combined ratio target for the long-term is 95.0% or better. In fiscal 2019, our adjusted[8] combined ratio was 109.5% compared to 106.4% in 2018.

Growth in Investable Assets

Insurance companies collect premiums now and pay claims later. This money is available to invest until claims are paid. This capital is known as float. The float calculation is insurance liabilities plus policyholder liabilities less reinsurance assets. In 2019, float increased by 16.7% from R198.9 million to R232.1 million, or to 32.9 cents per share.

The simple float calculation does not appropriately measure how much unencumbered capital is actually available to invest, because some of this capital is reinvested or absorbed by Constantia operations. In response we developed a more conservative calculation called "investable assets". These are assets generated by the insurance companies that can be freely invested and have "float-like" characteristics. We exclude any amounts not meeting these criteria (such as restricted bank balances held in terms of our investment policy). Our version of investable assets can be summarised in terms of the following formula:

Investments held at fair value + Cash and cash equivalents - Assets not held in Constantia
- Assets required to be held in cash

The value of investable assets reduced from R1.0 billion on 30 June 2018 to R538.7 million on 30 June 2019. This reduction was mainly caused by operating losses, combined with the unrealised investment losses that

[8] We adjust the combined ratio to exclude up-front costs associated with new business initiatives. We believe the adjusted ratio is a better reflection of underlying performance. It also avoids a situation where new projects are not funded because they may temporarily negatively affect the combined ratio. The combined ratio before these adjustments was 115.2% (2018: 111.3%).

resulted from the mark-to-market of the investment portfolio. This was somewhat offset by the introduction of additional capital into Constantia. Constantia's own contribution to investable assets was a negative R278.1 million, as follows:

1. Investment in infrastructure (R 19.4 million); and
2. Assets impaired by operations (including growth initiatives) (R291.9 million); offset by
3. An increase in float R 33.2 million.

While Constantia is in a growth and capacity building phase, we expect investable asset growth to continue to be muted or negative.

Return on insurance capital employed

Return on insurance capital employed is Constantia's adjusted after tax return (excluding the equity portfolio) on capital utilised for insurance purposes. The metric is designed to ensure that the capital used by the insurer for insurance operating purposes at least meets our minimum hurdle rate, which is 15%. Constantia did not achieve a 15% return on capital for the year.

Measuring Constantia's Performance - Qualitative

Measuring qualitative performance is subjective. In my view, the level of talent around the table at Constantia is formidable, and there is an intense drive to build a high-performing company culture. Constantia is becoming known as an innovative partner of choice in the South African insurance markets, and our business is attracting talent from across the industry. The platform being built and the opportunities that it will create give me much excitement for the future.

Constantia has deployed moderate levels of capital in initiatives that have substantial scale outside of the risk business of insurance. We refer to these as adjacency projects. These investments are held at the Conduit level to eliminate any conflicts of interest. So far, we have developed insure-tech software (JaSure) and a unique telematics platform (Rikatec). Other joint venture opportunities in the tech area now present themselves to Constantia, on which both competitive advantage and scale related returns are expected.

Outlook

The business of Constantia is more developed than ever. The growth in the business and the negative strain on its capital from this growth, underwriting losses and lower equity values, has introduced a rethink of the optimal capital structure. Fortunately, the Group possesses more than adequate access to capital, and various initiatives are underway to ensure Constantia's value creation and compounding runway are not impeded.

INVESTMENTS

Our Strategy and Investment Philosophy

Conduit is a long-term, long only investor in quality businesses run by able, intelligent people, irrespective of form. Conduit's investment philosophy is value-driven and based on extensive fundamental research to understand a company's competitive position and management. We seek to identify companies that can compound underlying intrinsic value at a high rate over the long-term. We invest from a bottom-up perspective with a focus on a company's business model and management team. When a compelling opportunity arises, we are prepared to invest a substantial portion of our assets. As a result, we typically have a relatively low number of investments that we know well.

All investments are, in our view, likely to grow their business value significantly over time. This is important because it will then allow Constantia to grow its own business from a larger capital base. As Constantia grows, so the capital we can use for investment grows, and the cycle repeats. We should, on this basis and notwithstanding income statement volatility, be able to grow our per share net asset value by further enabling this cycle.

Conduit aims to be a shareholder of reference in great companies allowing talented management teams to create value over time. Our investment may be entirely passive. In other instances, we may constructively engage with management to increase value in a supportive fashion. This range of support enhances Conduit's ability to find attractive investments and can sustain or enhance underlying company compounding capability.

Equity Investment Portfolio

To understand our equity investment portfolio it is important to understand our investment philosophy. We consider all investment opportunities (whether public, private, wholly owned, partly owned, etc.) as long-term ownership stakes in businesses. What matters is the underlying value of an investment and that company's capacity to continually increase value over a long time period. Investment analysts check share prices daily, whereas we have yet to receive a request for our daily valuation of Constantia (it does not exist). The inability to focus on business value instead of market value is an obsession that creates opportunities for Conduit.

Our public equity portfolio, seen through this lens, should be understood as a group of businesses in which we are invested, that also happen to be listed. We pay no attention to the short-term fluctuations of prices (except to take advantage of irrational pricing to buy or sell securities). We would much rather spend our time on an intense focus on key business metrics and business progress. Conduit has no pre-defined "exit" strategies, although we will exit an investment if something more attractive can be found, or if our thesis changes. We do not think about a target price of equities. This long-term perspective is a structural competitive advantage for our business.

Conduit's equity investment portfolio returned a negative 32.3% (including dividends) on a weighted basis in 2019, compared to the JSE All Share Index which returned 4.3% over the same period. We do not specifically track our performance to the market benchmark, but there are no other relevant contextual comparisons. At year-end, shareholders had 148.1 cents (2018: 220.9 cents) per share in cash and investments (at market value) at work. After thorough internal debate, we have decided not to discuss the specifics of our investment portfolio in order to protect our intellectual capital. You will not find us openly discussing our medical malpractice data insights, and we believe the same logic should apply to our investment portfolio.

On a mark-to-market basis, our portfolio produces large swings (up or down) over short time periods (for example, down R378.0 million this fiscal year against a gain of R351.2 million last year). We cannot predict short-term fluctuations. In our view, the equity portfolio trades around 30% of its reasonably conservative fair market value. Share prices are down, but in our opinion, business value is not.

We do not concern ourselves about where the portfolio is valued by the market at any point in time (whether high or low). It does not matter where shares are or where they have been. What matters only is where they are going. Where they are going is driven by durable competitive advantage in the hands of intelligent fanatics. Market analysts are generally focused on larger companies and tend not to fully understand small or medium companies. On the flip side, we are not about to attempt to educate the wider market, because if we are successful, we may lose some (or all) of our competitive advantage.

Look-through Earnings

An additional measure of the performance of the public investment portfolio is "Look-through Earnings". This is Conduit's *pro rata* share of headline earnings[9] produced by its investments in other listed companies. The metric is useful because all profits, whether distributed or not, are valuable to shareholders and can show trends not otherwise observable by share price movements. Only share price movements and dividends are accounted for under IFRS in our books, but there is real value to shareholders of retained earnings.

The following table compares the Group's look-through earnings as at 30 June 2019 with the position as at 30 June 2018:

2019				2018			
Stock	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*	*Stock*	*Share-holding in entity*	*Share of headline earnings (loss) R'000*	*Share of dividend R'000*
S1	5.61%	33,621	-	**S1**	6.58%	13 473	-
S2	13.27%	(5,966)	-	**S2**	12.88%	23 682	-
S3	6.02%	(14 035)	-	**S3**	6.00%	(11 850)	-
S4	5.57%	7 666	5 213	**S4**	5.27%	13 301	2 903
S5	0.00%	-	-	**S5**	0.82%	2 045	989
		21 286	5 213			40 651	3 892

Private Investments

Century21, in which we own 51%, is the South African master franchisor of the Century21 real estate brand, the world's largest real estate brand. In a severely depressed national property market, Century21 increased year on year sales by 24.4%, revenue was up 11.6% and franchisees were up 4.4% to 49 offices nationwide. We are proud of Harry Nicolaides and the entire network at Century21 under tough economic circumstances. We believe the power of the Century21 brand in the hands of energised agents has many more billions of home sales to come!

Africa Special Opportunities Capital (known as ASOC) is an investor in distressed South African assets. Through their first fund, they own three entities: Okuhle Media, OptiBaby (an early education provider) and SkyNet Worldwide Express ("Skynet"). The fund is showing a 5.8% fair value increase, driven by the impressive turnaround at SkyNet. We expect realisations from this portfolio in the year ahead, subject to market conditions. Conduit owns 25% of the ASOC management company and has invested R44.4 million into the first fund. It has been a year of hard work for Shaun Collyer, Paul Birkett and Richard Ferguson, and we appreciate their efforts on our behalf.

Anthony Richards and Associates Proprietary Limited ("ARA") is a credit recovery business that is 40% owned by Conduit. The business is sensitive to the economic cycle. A poor economy generally results in fewer collections and therefore less revenue for ARA. The business has a variable cost base, so tends to maintain margins and high returns on capital despite lower revenues. The business is cash generative and pays out

[9] Calculated as the audited headline earnings of each investee company at its most recent fiscal year-end multiplied by Conduit's ownership percentage of the company.

practically all its earnings in cash. However, because revenues have decreased our valuation policy has required us to write down the value of the investment by 31.9% to R52.7 million.

OUR COUNTRY AND OUR POSITIONING

The current political, social and business environment is fragile. In times like these, we must ensure that we adequately address our emotions. There is no such thing as "no emotion", so we must use all experiences to better inform our perspectives. It is a critically important part of business to be faced with adversity. It is important to experience results that look wrong in the short-term. Situations where a change in thinking becomes necessary expand the mind. Conditions where one's temperament is severely tested must be lived to build a truly great business. The learning process fails without humility. Without challenges along the way, the likelihood of evolving as a businessperson, and as a thinker, is reduced. Besides, the sweetness of success is less if you never really had to fight for it.

The opportunity set in South Africa is astounding. This does not mean that the market as a whole is cheap, but our portfolio and certain other companies we admire trade at valuations well below their intrinsic value. If we get excited about one company per year it is a lot. Now, we are excited about all the companies we own and most of those we admire. We have a high level of confidence in our convictions because a) we understand our businesses and b) we understand the local context. We understand why prices are wrong. Gross Domestic Product ("GDP") (a handy headline grabbing number with limited, if any, practical investment use) contracted 3.2% in the first quarter, compounding negativity on the ground. Low confidence creates uncertainty, which is the driver of decreased economic activity and conversely the creator of opportunity. For example, real gross fixed capital formation (a measure of how value in the economy is consumed versus invested) decreased for a fifth consecutive quarter in the first quarter of 2019. The private business sector is accumulating instead of investing because they are afraid to commit capital when things are uncertain. "Uncertainty is the greatest disease the mind faces", said Robert Green in his book Mastery. In the second quarter of 2019, GDP rebounded by 3.1%. Gross fixed capital formation (fixed investment) increased by 6.1%, the first positive rise in gross fixed capital formation since the fourth quarter of 2017. The turnaround in South Africa will be based on a change in momentum in the economy, which can occur suddenly.

Extreme price weakness is mostly driven by a lack of confidence (inversely known as fear), in this case caused by the unravelling of previous political leadership. A lack of confidence creates uncertainty which dissuades investors and businesses from investing. The reasons for the lack of confidence are known, the solutions are in process and the result will be a normalisation of confidence and then economic conditions. We do not know when sanity will return (and frankly, the longer it remains on holiday the wider our opportunity set will become). Until then, we use the tools available to do what we can to capture as much opportunity as possible. One day we will look back at this period and recognise it for what it is: a once in a generation opportunity to build a business through opportunities that subsequently generated exceptional wealth for their pursuers.

REMUNERATION

With effect from 1 July 2015 the Conduit Remuneration Committee introduced a new remuneration programme for Conduit Executives and CEOs of wholly owned subsidiaries. Each Executive and subsidiary CEO is incentivised over areas which he or she has influence, as well as overall Group performance. In our view, incentive systems should be clear and achievable, but demanding and in the best interests of all stakeholders.

For the 2020 fiscal year, we have added a clawback provision and adjusted the investment return and the net asset value metric to include a high-water mark. Further detail on the Group's remuneration policy will be contained in the Remuneration Report in the 2019 Integrated Annual Report. Shareholders will again be asked to approve in a non-binding vote the Group's remuneration policy at the forthcoming Annual General Meeting.

RETURN OF CAPITAL

During the year, we repurchased 4.8 million Conduit shares at a total cost of R8.1 million. Repurchased shares are held in treasury and are not included in the calculation of earnings or net asset value per share. Share repurchases are considered in terms of our Group-wide capital allocation framework: should our own shares be the most productive use of capital, we will actively look to engage in on-market repurchases. Repurchases have the benefit of increasing intrinsic value per share, but only when acquired below our estimate of intrinsic value. Conduit has a range of opportunities in which to deploy capital at attractive rates and therefore no dividend has been declared.

PROSPECTS

Like all citizens, Conduit has borne the brunt of the negativity and uncertainty permeating in South Africa. Economic conditions have put severe pressure on share prices and business and investment confidence. In these conditions it is difficult to stay rational, and many fail. Our portfolio of businesses has performed acceptably, albeit below potential, largely through no fault of their own.

It is frustrating to watch people who work their socks off to create value have their share prices decrease because of the inadequacy of fundamental analysis or negative selling. That companies are getting cheaper excites us. The cycle does, however, have knock-on effects such as a decrease in capital markets confidence and liquidity, a hesitation for new investment, a decrease in employee morale, and a delay in long-term compounding. However, these cycles are a natural part of the economy. I believe the money is made in the buying, but earned in the owning – an idea much more challenging in practise than theory.

Constantia is expected to navigate its challenges, which are limited to certain motor P&C books, and has begun a deep review to implement a range of interventions and business model improvements critical to the success of this portfolio. The health and other books are performing well but are also continually under review for improvement in terms of the *Constantia Way* process. The opportunity to build the next insurance business of scale is dependent on the commitment, leadership and outstanding effort of all Contantia's employees led by CEO Volker von Widdern, and all our partners. We are excited about the future of this business while acknowledging there is more work to do.

Our public investment portfolio is invested in a selection of companies we believe can deliver outstanding value in the long-term. Most of these companies have increased their intrinsic value despite headwinds in all situations. Our desire is to be core anchor shareholders of these businesses and to support the leaders of these businesses through good times and bad.

Annual General Meeting

Our 2019 Annual General Meeting will be held on Friday, 15 November 2019. I encourage all Conduit shareholders and partners to attend the meeting to hear more about our business and ask management any questions. I will be making a presentation at the meeting followed by a question and answer session. Most of our investee companies will be present and you will have the opportunity to meet them there too. The event provides an insight into the Conduit ecosystem, and I look forward to seeing you there.

APPRECIATION

The uncertainty in South Africa is caused by the public exposure of corruption in government. It is a tribute to the maturity of our democracy that whistle-blowers are given a platform to expose these sins. Only 25 years ago, such people never came forward for fear they would disappear; many did. South Africa is too far down the path of democracy to revert to her past horrors. We are proud to see ordinary South Africans forcing the country into recovery. We applaud the determination of our underlying management teams for their extraordinary efforts to preserve and create value during difficult times. Such partnerships are invaluable, and our own Company, because of them, is in a good position.

I would like to personally thank the thousands of men and women who work every day to build Conduit into an exceptional company. Through your efforts, we can become the next great South African corporate success story.

My fellow Executives and Board, my thanks for your support during the year.

Finally, to our shareholders, no tree grows to the sky, and no story is without bumps along the way. Through your support we have an exceptional opportunity to build something fantastic, and we have every intention of doing so. Bear with us.

"If you can't handle me at my worst, then you sure as hell don't deserve me at my best." – Marilyn Monroe

Sean Riskowitz
Chief Executive Officer
Johannesburg
30 September 2019

INVESTOR CALL

Shareholders are advised that management will be hosting an investor call at 15:00 CAT on 7 October 2019 to provide commentary in terms of the results for the year ended 30 June 2019.

The call will focus on the year-end results announcement, which is available on the Group's website at http://www.conduitcapital.co.za/financial/financial_information.php, and how it contributed towards our long-term vision and growth strategy.

Please send an email, by 4 October 2019, to results@conduitcapital.co.za to pre-register for the call.

<u>**Conduit Shareholder Manifesto**</u>

Conduit Capital shareholders are a unique bunch of investors. We generally adhere to the following principles. If you are (or plan to become) a Conduit shareholder, this guide may help you to better understand our business and culture.

1. **We are business owners with a long-term focus.** Conduit is not a company with which we try to make short-term trading profits. We are long-term owners of a business enterprise.

2. **We measure performance by calculating the increase in intrinsic value per share.** While not a perfect proxy, the *growth* in intrinsic value per share is most closely measured by the *growth* in net asset value per share. We do not measure the performance of Conduit by its size, or financial ratios that are not relevant (such as the PE ratio).

3. **We expect Conduit to increase the intrinsic value per share over the long-term at a rate well above the market averages and peers.** We intend to achieve this goal by maximising Conduit's return on capital employed and average annual growth in normalised earning power per share.

4. **We are partners with management and expect management to have significant skin in the game.** Management should "eat their own cooking" by owning shares in the company.

5. **We recognise that the IFRS reported numbers of the business do not always tell the whole story.** We therefore put in the effort to understand how the business is really performing. We do not pay attention to short-term financial results.

6. **We understand Conduit has a primary focus on insurance but expect the Company to make investments in non-insurance businesses.** We know Conduit will eventually own a diversified set of high quality businesses, both in the insurance and non-insurance industries, and through the public or private markets. We expect management to make investments that meet our key criteria, irrespective of form.

7. **We encourage management to make long-term investments even if they produce short-term losses.** We are not afraid of short-term earning pressure in exchange for sustainable long-term earnings power.

8. **We expect management to retain earnings so long as the market value of every rand retained exceeds one rand over the long-term, and so long as good investment opportunities can be found.** We do not expect dividends in the ordinary course, but do expect share repurchases when the circumstances warrant.

9. **We expect the company to be transparent and report the good news and the bad.** Business has its ups and downs. We demand management to be honest rather than opaque.

10. **We will issue shares only when the value we obtain is greater than the value we give up.** Management should think carefully about when to issue shares. When as much or more value can be obtained by issuing shares, we expect management to capitalise.

Conduit Subsidiary CEO Manifesto

Conduit Capital subsidiary CEOs are empowered to run their organisations in pursuit of their goals. The following principles govern our subsidiary CEO relationships. Conduit aims to be the home of choice for intelligent fanatic, exceptional business managers.

1. **We will support you in the running of your business.** You will be empowered to run the company as if it were your own, in line with Conduit's best-in-class governance.

2. **You will have authority to run the company.** And you will be empowered to build a deep bench of talent to support you.

3. **We believe in delegation.** You choose who you hire, how to execute and how to achieve your objectives.

4. **You will be involved in developing and recommending a succession plan.** This is a function of a high quality deep bench of talent for continuity and ultimate sustainability.

5. **We will jointly set performance targets and key metrics for your business annually.** Your compensation will be directly tied to these metrics.

6. **Your personal compensation and performance metrics will be guided by Conduit.** All other compensation and performance metrics, systems and incentives in your organisation are up to you.

7. **Your long-term goal is and always will be to increase the intrinsic value of the company.** Measured each year and over rolling-three year periods. You will enjoy support from us, but how you get there is up to you.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Reviewed year ended 30 Jun 2019 R'000	Audited year ended 30 Jun 2018 R'000
Gross written premium	2 050 653	1 536 885
Reinsurance premium	(1 662 784)	(1 144 341)
Net written premium	387 869	392 544
Net change in provision for unearned premium	(21 598)	(716)
Net premium income	366 271	391 828
Reinsurance commission received	484 456	532 035
Other income	31 688	53 440
Income from insurance operations	882 415	977 303
Total insurance expenses	(1 169 925)	(1 118 381)
Net claims and movement in claims reserves	(157 535)	(245 919)
Insurance contract acquisition costs	(295 322)	(257 035)
Administration and marketing expenses	(697 248)	(604 854)
Other expenses	(19 820)	(10 573)
Net underwriting loss	(287 510)	(141 078)
Net non-insurance (loss) income	(384 302)	345 098
Investment (loss) income	(363 795)	368 843
Other income	11 669	7 359
Administration and marketing expenses	(32 254)	(30 912)
Other income (expenses)	78	(192)
Operating (loss) profit	(671 812)	204 020
Finance charges	(3 181)	(1 143)
Equity accounted income	2 971	6 619
Other expenses and losses	(34 662)	(8 191)
(Loss) profit before taxation	(706 684)	201 305
Taxation	53 888	(73 831)
(Loss) profit for the year	(652 796)	127 474
Other comprehensive income	-	-
Total comprehensive (loss) profit	(652 796)	127 474
Attributable to:		
Equity holders of the parent	(651 665)	127 222
Non-controlling interest	(1 131)	252
Total comprehensive (loss) profit	(652 796)	127 474
Headline (loss) profit	(622 937)	133 548
(Loss) profit per share (cents)		
- Basic and Diluted	(92.8)	20.0
- Headline and Diluted headline	(88.7)	21.0

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Reviewed 30 Jun 2019 R'000	Audited 30 Jun 2018 R'000
ASSETS		
Non-current assets	1 218 836	1 512 591
- Property, plant and equipment	84 385	16 746
- Intangible assets	161 046	122 878
- Reinsurers' share of policyholder liabilities	29 743	-
- Deferred taxation	7 922	34 413
- Investment properties	3 470	3 360
- Investment in associates	89 166	116 941
- Investments held at fair value	843 104	1 218 253
Current assets	1 069 419	892 726
- Insurance assets	437 041	278 484
- Loans receivable	500	6 330
- Investments held at fair value	2	2
- Trade and other receivables	436 769	263 079
- Taxation	334	4 741
- Cash and cash equivalents	194 773	340 090
Total assets	2 288 255	2 405 317
EQUITY AND LIABILITIES		
Capital and reserves	745 825	1 407 001
Stated capital	1 162 575	1 170 713
(Accumulated loss) Retained earnings	(426 055)	225 852
Equity attributable to equity holders of the parent	736 520	1 396 565
Non-controlling interest	9 305	10 436
Non-current liabilities	240 989	235 282
- Policyholder liabilities under insurance contracts	76 006	37 200
- Interest-bearing borrowings	53 231	304
- Deferred taxation	111 752	197 778
Current liabilities	1 301 441	763 034
- Insurance liabilities	622 863	440 135
- Interest-bearing borrowings	4 998	307
- Trade and other payables	671 325	317 909
- Taxation	2 255	4 654
- Bank overdraft	-	29
Total equity and liabilities	2 288 255	2 405 317
Net asset value per share (cents)	105.1	198.0
Tangible net asset value per share (cents)	82.1	180.6

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2019

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	882 415	-	882 415
Expenses	(1 169 925)	(2 963)	(1 172 888)
Operating result	(287 510)	(2 963)	(290 473)
Equity accounted income (loss)	(3 375)	6 346	2 971
Net investment (loss) income	13 041	(378 396)	(365 355)
Other	(12 124)	(26 993)	(39 117)
Loss before head office expenses and taxation	(289 968)	(402 006)	(691 974)
Unallocated net head office expenses			(14 710)
Taxation			53 888
Loss for the year			(652 796)
Capital utilised			
Capital employed at end of year	700 301	14 577	745 825
Reallocation	(599 730)	599 730	-
Capital utilised at end of year	100 571	614 307	745 825
Average capital utilised during the year	224 623	856 224	1 119 923

SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	977 303	-	977 303
Expenses	(1 118 381)	(2 991)	(1 121 372)
Operating result	(141 078)	(2 991)	(144 069)
Equity accounted income (loss)	(2 119)	8 738	6 619
Investment income	8 463	358 144	366 607
Other	(1 004)	38	(966)
Profit (loss) before head office expenses and taxation	(135 738)	363 929	228 191
Unallocated net head office expenses			(26 886)
Taxation			(73 831)
Profit for the year			127 474
Capital utilised			
Capital employed at end of year	1 103 285	321 162	1 407 001
Reallocation	(747 176)	747 176	-
Capital utilised at end of year	356 109	1 068 338	1 407 001
Average capital utilised during the year	217 122	889 864	1 066 025

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Reviewed year ended 30 Jun 2019 R'000	Audited year ended 30 Jun 2018 R'000
Net cash flows from operating activities	(119 607)	(112 732)
- Cash utilised by operations	(127 012)	(127 785)
- Interest received	13 461	15 926
- Finance charges	(3 181)	(1 097)
- Dividends received from investments	764	1 845
- Taxation paid	(3 639)	(1 621)
Net cash flows from investing activities	(15 700)	(70 812)
- Net acquisition of associates	(1 625)	(8 395)
- Dividends received from associates	6 000	-
- Acquisition of subsidiaries	-	(15 257)
- Net acquisition of property, plant and equipment	(15 846)	(2 761)
- Acquisition of intangible assets	(798)	(9 986)
- Net acquisition of financial investments	(3 431)	(34 413)
Net cash flows from financing activities	(9 981)	315 494
- (Shares repurchased) Proceeds from new share issue	(8 138)	324 110
- Interest bearing borrowings repaid	(59)	(77)
- Net loans repaid by third parties	5 830	9 142
- Loans granted to associates	(7 614)	(17 681)
Total cash movement for the year	(145 288)	131 950
Cash at the beginning of the year	340 061	208 101
Cash acquired	-	10
Total cash at the end of the year	194 773	340 061

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Stated capital R'000	(Accumulated loss) Retained earnings R'000	Non-controlling interest R'000	Total R'000
Balance at 30 June 2017	846 603	98 630	310	945 543
Acquisition of interest in subsidiary	-	-	9 874	9 874
Total comprehensive profit for the year	-	127 222	252	127 474
Issue of share capital	340 450	-	-	340 450
Treasury stock acquired through subsidiaries	(16 340)	-	-	(16 340)
Balance at 30 June 2018	1 170 713	225 852	10 436	1 407 001
Adjustment from adoption of IFRS16	-	(242)	-	(242)
Total comprehensive loss for the year	-	(651 665)	(1 131)	(652 796)
Treasury stock acquired through subsidiaries	(8 138)	-	-	(8 138)
Balance at 30 June 2019	1 162 575	(426 055)	9 305	745 825

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated provisional reviewed financial statements for the year ended 30 June 2019 ("Reviewed Results") are in accordance with International Financial Reporting Standards ("IFRS") and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. These accounting policies are consistent with those applied in the annual financial statements for the year ended 30 June 2018, except for the adoption of the completed version of IFRS 9: Financial Instruments, IFRS 15: Revenue from Contracts with Customers and IFRS 16: Leases.

The Group previously early adopted Phase 1 and Phase 2 of IFRS 9 which dealt with recognition, classification, measurement, de-recognition of financial assets and liabilities and hedge accounting. The final phase included the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit. There was no material impact to the Group on adopting the completed version of IFRS 9.

The adoption of IFRS 15 has not resulted in a significant impact on the Group's revenue.

The Group has chosen to early adopt IFRS 16: Leases and has opted for the transitional arrangement of adjusting opening retained income instead of restating prior year comparatives. At the date of recognition all operating lease liabilities were reversed and the new lease liabilities were recognised. This had an adjusting effect to the opening retained earnings of R242 231.

The Reviewed Results have been prepared making use of reasonable judgements and estimates and reporting is done in terms of IAS 34: Interim Financial Reporting, the Companies Act, 2008 (Act 71 of 2008), as amended, and the Listings Requirements of JSE Limited ("the JSE") under the supervision of Mr Lourens Louw, the Chief Financial Officer.

2. Changes in share capital

During the year under review, Midbrook Lane Proprietary Limited ("Midbrook") and Conduit Management Services Proprietary Limited ("CMS"), both wholly-owned subsidiaries, acquired an aggregate 4 833 359 Conduit shares in the market for a total consideration of R8.1 million. The Group accounts reflect these shares as treasury shares.

In the prior financial year, Conduit raised R350.0 million in cash by issuing 175 000 000 ordinary no par value shares by way of a rights offer. Share issue costs of R9.6 million were charged against stated capital.

Details of the shares in issue as at the reporting dates are as follows:

	30 Jun 2019 '000	30 Jun 2018 '000
Number of shares	700 607	705 440
- Shares in issue	764 444	764 444
- Shares held as treasury shares	(63 837)	(59 004)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	702 100	635 674

	30 Jun 2019 '000	30 Jun 2018 '000
- Shares in issue	764 444	686 293
- Bonus issue for rights offer [1)]	-	2 075
- Shares held as treasury shares	(62 344)	(52 694)

[1)] The weighted average number of shares for the prior year has been restated by the Bonus issue amount due to the rights offer that took place on 11 December 2017, as required by IAS 33: Earnings per share.

3. Impairment assessment of associates

As a reflection of the difficult trading conditions experienced in consumer credit markets Conduit Capital impaired its investment in ARA by R24.6 million to R52.7 million. It impaired its investment in Jasure Financial Services Proprietary Limited by R8.8 million based on reduced opportunities for the business. The investment in the ASOC management company was impaired by R0.5 million to reflect lower expected management fees due to the difficult trading environment experienced by some of the investments in the underlying fund.

4. Acquisition and disposal of subsidiaries

No subsidiaries were acquired or disposed of during the year under review.

5. Financial instruments

Fair value estimation

The financial assets valued at fair value through profit and loss in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial assets	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
2019				
Listed investments	794 446	-	-	794 446
Investment properties	-	-	3 470	3 470
Unlisted investments	-	48 657	2	48 659
	794 446	48 657	3 472	846 575
2018				
Listed investments	1 173 391	-	-	1 173 391
Investment properties	-	-	3 360	3 360
Unlisted investments	-	40 862	4 002	44 864
	1 173 391	40 862	7 362	1 221 615

There have been no transfers between levels 1, 2 and 3 during the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period:

- Financial assets classified in Level 1 have been valued with reference to quoted prices and market rates (unadjusted) in active markets for identical assets or liabilities;
- Financial assets classified in Level 2 have been valued by an independent third party (using the net asset value of the underlying assets in the investment as a basis) to determine at which value the investment could have been liquidated as at the reporting date; and
- The fair value of the financial assets classified in Level 3 has been determined by inputs that are not based on observable market data in that the future expected cash flows from the underlying unlisted entities have been discounted at market related rates.

In carrying out the valuation of financial assets classified in Level 3 on 30 June 2019, the directors determined the fair value of the investment property using the income/investment approach (by way of the capitalisation of net income), based on the work done in June 2018 by R.A. Gibbons (AEI (ZIM), FIV (SA)) from Mills Fitchet Magnus Penny Proprietary Limited, an independent valuator, after taking the following factors into consideration:

- location, size and nature of the building;
- supply, demand and ability to let of similar properties in the area;
- market rentals ranging between R60 and R170 per m^2 in the general vicinity of the properties; and
- a capitalisation rate ranging between 9.5% and 11.0%, as used in the market for similar type properties;

whereas the value of the unlisted investments has been determined based on the willing buyer/willing seller methodology.

6. Taxation

Due to the continued underwriting losses incurred during the year under review Constantia Insurance Company Limited ("CICL"), in consultation with its auditors, decided to reverse all its deferred tax assets, other than those assets that resulted from provisions and accruals. This resulted in tax assets of R26.3 million being reversed, potential tax assets of R84.4 million (2018: R27.3 million) not being credited to the income statement and a cumulative R138.0 million not being reflected in assets.

The Group's effective tax rate for the year under review is therefore 7.6% (2018: 36.7%). If the additional deferred tax asset were raised the effective tax rate would have been 19.6% (2018: 23.1%). The difference between this rate and the standard company income tax rate of 28.0% can mostly be attributed to the fact that tax is provided on the Group's investment income from equities at the capital gains tax rate, which is an effective 22.4%.

This position will be reviewed on an ongoing basis.

7. Reconciliation of headline (loss) profit

	Reviewed year ended 30 Jun 2019 R'000	Audited year ended 30 Jun 2018 R'000
(Loss) profit attributable to ordinary equity holders of Conduit	(651 665)	127 222
Loss on disposal of property, plant and equipment	677	4
Impairment of associates	33 986	8 281
Profit on revaluation of investment property	(450)	-
Profit on disposal of subsidiary	-	(94)
Tax on the items above	(5 485)	(1 865)
Headline (loss) profit	(622 937)	133 548

8. Statutory capital below regulatory requirements

The Prudential Authority ("PA") that governs the South African assurance companies came into effect on 1 July 2018, following the promulgation of the Insurance Act No 18 of 2017. This also brought about the Financial Soundness Standards that govern all insurers. These financial soundness standards necessitated a change to CICL's solvency capital requirement ("SCR") calculation.

The Financial Soundness Standards defines two levels of capital that an insurer is required to comply with at all times:

- The prescribed minimum capital requirement ("MCR") that refers to the absolute minimum level of eligible own funds that an insurer must hold to protect all its policyholders. The minimum MCR is 1.00; and
- The prescribed SCR, which refers to the level of eligible own funds that an insurer must hold to ensure that the value of its assets will exceed the technical provisions and other liabilities at a 99.50% confidence level over a one year time horizon. The minimum SCR is 1.00.

The SCR model requires an additional surplus of assets (buffer) above liabilities to take account of potential adverse outcomes of both the inherent risk of underwritten portfolios and the future cost of claims of these portfolios and should the insurer not have a sufficient buffer in place (i.e. the SCR is below 1.00), the PA has various rights of response and intervention, commencing with closer supervision of the insurer.

As at 30 June 2019, CICL had an SCR ratio of 0.95, primarily as a result of unrealised losses in the listed equity portfolio, as well as underwriting losses incurred within the property and casualty business during the financial year. CICL's MCR on the same date was 3.48.

As at 30 June 2019, Constantia Life & Health Assurance Company Limited ("CLAH") had an SCR ratio of 0.83, primarily as a result of unrealised losses in the listed equity portfolio, as well as growth related expenses incurred during the financial year. CLAH's MCR on the same date was 1.15.

CICL and CLAH's ongoing correspondence with the PA includes various action plans to restore the SCR above 1.00 and to add an additional safety margin. It should however be noted that, notwithstanding the substantive remediation efforts already underway, should the planned initiatives not be successful, the companies' SCR may not be restored to a minimum level of 1.00 in the short term.

9. Contingent liabilities

9.1. A portfolio acquisition agreement, effective 1 September 2015, exists between CICL and Dealers Indemnity Proprietary Limited ("Dealers"). Dealers receives a monthly annuity of R45 000 for the remainder of the vendor's natural life, subject to a minimum payment of R1.5 million ("the Minimum Payment").

The present value of the annuity payments as at 30 June 2019 amounted to R3.4 million ("the Maximum Liability") per an actuarial calculation based on published mortality tables. The Group has initially raised a liability to the value of R1.5 million, which was the minimum amount payable. This amount has now been paid in full. The Group therefore confirms that it has a contingent liability of R3.4 million as at the reporting date.

9.2. During the 2017 financial year, the Group acquired the Natmed computer software that will be used to manage its medical malpractice business. When it purchases the next version of the software in 2020, the Group will pay to the seller of the software ("the Seller") an additional consideration of 1.65 times the annualised gross written premium invoiced on 1 March 2020 ("the Closing Date") to medical malpractice policyholder clients that were introduced by the Seller, excluding those policyholder clients who already agreed to insure with the Group from 1 March 2017. An accrual of R53.0 million in respect of this liability has been raised as at the reporting date, with the final amount only to be determined at the Closing Date.

In addition, the Group will pay to the Seller 5% of the gross written premium generated by medical malpractice policyholder clients introduced to it by the Seller between 1 March 2017 and 28 February 2023, on the condition that the cumulative claims loss ratios of those clients during that period does not exceed 30%. The cumulative claims ratio was 26.7% as at the reporting date, giving rise to a potential liability of R5.9 million.

9.3. The Group is not aware of any current or pending legal cases that would have a material adverse effect on its results.

10. Directors

On 1 February 2019 Mr William N. Thorndike, an independent non-executive director, was appointed to be the lead independent director of the Company.

11. Dividends

In line with the Group's strategy, the Board has not recommended any dividend payment to ordinary shareholders (2018: Nil).

12. Events after reporting period

There were no events that resulted in a material impact on the Group between the reporting date and the date of publication of this report.

13. Review opinion

These condensed consolidated financial statements for the year ended 30 June 2019 have been reviewed by BDO South Africa Incorporated, who expressed an unmodified review conclusion. The auditor's report contained the following Emphasis of Matter paragraph:

"We draw attention to Note 8 to the financial statements, which refers to Constantia Insurance Company Limited and Constantia Life and Health Assurance Company Limited not meeting their minimum solvency capital requirement (SCR) of 1.00 as prescribed in terms of the Insurance Act No 18 of 2017. As explained in Note 8, should the planned initiatives not be successful, the SCR of these companies may not be restored to a minimum level of 1.00 in the short term. Our opinion is not modified in respect of this matter."

A copy of the auditor's review report is available for inspection at the company's registered office, together with the financial statements identified in the auditor's report. The auditor's report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor's engagement, they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

The illustrative solvency reinsurance normalised tables as contained in the CEO's letter have been derived from the reviewed financial information and has been reported on in an independent Reporting Accountant's assurance report which can be found on the Group's website at www.conduitcapital.co.za. This information has been prepared for illustrative purposes only and is the responsibility of the Group's Board of Directors.

14. Directors' responsibility

The directors take full responsibility for the preparation of the provisional report.

The provisional report is extracted from reviewed information, but is not itself reviewed.

Directors:

Executive directors:	Sean Riskowitz (Chief Executive Officer), Lourens Louw (Chief Financial Officer)
Non-executive directors:	Ronald Napier (Chairman)*, Leo Chou, Adrian Maizey, Jabulani Mahlangu*, William Thorndike*, Rosetta Xaba*

* Independent

Sponsor:
Merchantec Capital
13th Floor, Illovo Point, 68 Melville Road, Illovo, 2196

Company secretary:
CIS Company Secretaries Proprietary Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196

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Transfer secretaries:
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