

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")

CONDENSED CONSOLIDATED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

Review of Results and Commentary

Conduit Capital is a holding company primarily invested in the insurance industry. Conduit's objective is to support the development of a diversified insurance group complemented by a value-oriented, non-insurance investment programme. The Group's key aim is to compound underlying business value per share over the long-term, at rates greater than the market in general.

During the six months ended 31 December 2018, the net asset value ("NAV") per share increased by 1.7% from 198.0 cents to 201.4 cents. When compared to 31 December 2017, the increase was 6.8%. Headline earnings for the six months ended 31 December 2018 were 3.3 cents, compared to 9.5 cents for the six months ended 31 December 2017 ("the Prior Period"). In management's view, the **change** in net asset value per share more accurately reflects the **change** in underlying business value, as compared to the change in headline earnings per share. The reason is that the company's primary earnings drivers, being insurance underwriting, and the mark-to-market changes in the value of the investment portfolio, are by their nature volatile. However, the net asset value itself understates the intrinsic value of the business because of the way in which various assets and investments are accounted for. This volatility is magnified due to the high growth phase in which the company is in.

At 31 December 2018 the Group's total equity was R1.42 billion compared to R1.35 billion as at 31 December 2017, reflecting an increase of 5.2%. Total assets increased over the corresponding period by 22.1% from R2.22 billion to R2.71 billion. Equity in the insurance operations (including the value of equities investments held by the insurers) was R1.04 billion. Shareholders have 215.6 cents per share in investments (excluding operating businesses and cash) working for them.

Constantia Insurance Group ("Constantia")

Constantia, which is wholly owned by Conduit, comprises the Group's insurance operations. A separate board of directors governs each insurance subsidiary¹. Constantia's management team centrally manages each business through a delegated decision-making structure. The assessment of results is on an "all in" basis i.e. not per individual entity or business, but rather the group as a whole.

Compared to the Prior Period, Constantia's gross written premium increased by 23.8% to R898.4 million. Net written premium, adjusted for solvency reinsurance, increased by 43.7% to R856.2 million. Constantia uses solvency reinsurance to reduce the statutory capital that it is required to hold against certain lines of business. While this facility reduces the required amount of statutory capital, it also reduces the reported level of net premium. Therefore, the company provides net written premium on an adjusted basis for better period on period comparison. Constantia mostly retains the underwriting risk on this ceded premium.

¹ Constantia Insurance Company Limited ("CICL"), Constantia Life and Health Assurance Company Limited ("CLAH") and Constantia Life Limited ("CLL").

Constantia's gross and net premium and underwriting margin by line of business, for the period under review and the prior period, were as follows:

Table 1²

	Six months to 31 December 2018				Six months to 31 December 2017			
	Gross R'000	Net R'000	Net excl. solvency reinsurance R'000	Under-writing result ¹⁾ R'000	Gross R'000	Net R'000	Net excl. solvency reinsurance R'000	Under-writing result ¹⁾ R'000
Motor	251 960	24 695	244 749	(71 368)	136 521	56 380	109 044	(47 911)
Property	85 787	8 284	82 150	(4 013)	69 631	18 128	27 919	(5 366)
Accident and Health	437 723	42 435	422 567	(12 006)	413 585	18 685	386 490	(986)
Guarantee	13 791	6 309	6 557	(624)	13 245	7 159	7 159	633
Miscellaneous	17 554	1 900	17 284	(1 461)	28 128	7 818	14 205	(1 827)
Liability	74 403	62 062	65 747	(7 236)	36 540	22 643	22 643	(29 735)
Assistance	17 148	17 148	17 148	(14 991)	28 186	28 186	28 186	3 275
Unallocated	-	-	-	(2 741)	-	-	-	(4 763)
Underwriting result	898 366	162 833	856 202	(114 440)	725 836	158 999	595 646	(86 680)
Cost of solvency reinsurance				(12 473)				(6 271)
Total				(126,913)				(92 951)

¹⁾ Including head office expenditure allocation

Premiums increased as the business scaled its capacity and penetration into the market. The goal is to continue to build this scale in order to attract and retain high quality niche books which can meet the 95% (or better) combined ratio³ target. Constantia has required large up-front investment to build the infrastructure, people resource and systems necessary to support an eventual medium size insurance operation. Further premium growth is expected in the remainder of the fiscal year and into the future toward the target of around R3.00 billion in premium at a 95% (or better) combined ratio in the next few years.

Constantia's combined ratio target is 95% or better. The lower the ratio, the better, as it means we are creating assets to invest at no cost. The actual combined ratio for the period was 114.5%. Adjusted for new ventures and start-up losses (which includes our conservative reserving for medical malpractice claims), the ratio was 108.3%. The underwriting results' contribution was 72.0% and net expenses contributed 36.3%. The comparative numbers for the Prior Period were 115.7% and 109.7% respectively (underwriting contributed 60.1% and net expenses 49.6%).

The first two months of the 2019 fiscal year saw material improvements in underwriting performance across the board based on intelligent intervention in key books. However, during the second quarter, larger than expected claims in various new books had the effect of eliminating the gains made in the first quarter and pushing the business into negative underwriting territory.

² The *pro forma* information in Table 1 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 Listings Requirements and the Revised Guide on Pro Forma Information by SAICA and the accounting policies of the Group as at 31 December 2018. The illustrative solvency reinsurance normalised information has been derived from the Group's unaudited financial information.

³ The combined ratio is calculated as net claims plus expenses divided by net earned premium.

However, the underwriting problem areas are identifiable, solvable and fixable. Constantia has redoubled efforts to focus on immediate improvement in underwriting by intervening in books much more quickly, accessing necessary data at granular level and improving the take-on process of new books. The early signs are positive: the months of December 2018 and January 2019 averaged net underwriting profits (before operating expenses) in excess of R10 million per month. This area is receiving much attention at Constantia, where the team is moving fast to improve their new business due diligence processes and remedial action agility and effectiveness.

Weakness in some books was offset by better results in Constantia's healthcare division:

- The medical malpractice business now insures 1,200 specialists in South Africa, from a zero start just more than 24 months ago. During the 2018 calendar year the company spent R21.8 million on reinsurance for Medical Malpractice (for client credibility, not risk). The July renewal on this policy is expected to reduce reinsurance cost by 50.0%, reducing the combined ratio on the book (currently reflected at 96.9%, before head office costs) by a full 8.7 percentage points.
- The GAP product offers insurance to people that are already medically insured and provides access to higher quality healthcare facilities for specified medical procedures. In GAP insurance (where Constantia is one of the largest players in South Africa), recent premium increases have positioned this business to deliver combined ratios toward the 90.0% range in the second six months of the financial year. Going forward, GAP cover will be a narrower, more limited product to control risk exposures as medical cost inflation accelerates. Through the introduction of improved claims analysis, this business has recently been able to reduce claims by several million rand per month.
- The Primary Healthcare business offers high value for money health benefits and is positioned to become a dominant player in the lower to middle income segment of the population. It is estimated that there are 10 million employed South African with no or inadequate health cover. Performance in this line has been very good.

The Property and Casualty ("P&C") market in South Africa is estimated at R70 billion in annual premiums. Access to new brokers and networks through the P&C business should provide significant cross-sell opportunities for the health and life products. P&C is also an area full of opportunity to innovate and create new products. Constantia's entry into P&C has been the major source of increased premiums and claims. However, the strategy to access new distribution paths and remediate new books that are taken on is sustainable. Several previously problematic books were successfully remediated, although this process takes time (up to 18 months in some cases). Certain new books that were added to the business are in various stages of improvement but are unfortunately still loss-making. The business has become a lot more efficient in the due diligence and remediation process and it is expected these initiatives will reduce the impact of higher than expected losses from new books. The Heavy Commercial Vehicle business in particular has been reassessed, new technology requirements for drivers and trucks implemented and new expertise appointed to better manage this area.

New products such as Small and Medium Enterprise Group Life, Body Corporate and value-add motor insurance are being readied for distribution through broker networks in the second half of the year. The partnership with Extreme Fighting Championship ("EFC") was renewed and has proven to be a highly effective marketing channel of the Constantia brand. Excluding the short-term negative impact of new business taken on, the underwriting result for the full year is expected to improve from the first six months.

The company successfully invested in Rikatec Proprietary Limited ("Rikatec"), a company owning a predictive analytics platform that is able to predict mechanical breakdown in any motor vehicle manufactured since 1996. Rikatec uses algorithms that sift through live data generated from a motor vehicle's internal computer to alert drivers or fleet managers to upcoming mechanical issues before they occur. After period end, the National Empowerment Fund became an investor in Rikatec alongside Constantia at a valuation twice that of Constantia's investment cost. Constantia is a key investor in this business that has global potential and patented technology in over 140 countries. The platform serves as a key component of Constantia's motor insurance programme going forward.

Constantia's strategy can be divided into three distinct parts: Organic, Adjacent and Acquisition:

- Organic refers to the development of existing business lines into annualised premium of around R3 billion over the next few years.
- Adjacent refers to investments and initiatives ancillary to insurance opportunities that generate service income, such as value-add products or insurance industry servicing opportunities.
- Acquisition refers to the opportunity to acquire smaller insurers, underwriting managers or portfolios of insurance, where Constantia can offer a more suitable home for these businesses.

The growth opportunities through these three channels are significant, and much work has been done to position the company to optimise its strategy. With all good things, however, it takes times to build the scale necessary. Constantia is, despite the accounting loss, creating tremendous value as it positions to rapidly and sustainably grow into the medium size insurer of choice in the South African market.

Equity investments

The Group's equity portfolio produced a pre-tax return of 15.3% for the period under review (32.8% annualised). The equity portfolio is held in two subsidiaries at holding company level and various entities in the insurance group (now including the Snowball Wealth portfolio). The subsidiaries outside of the insurance operation are not subject to insurance regulation.

The Group's strategy is to invest in a concentrated portfolio of *compounding* type businesses. The Group invests in high conviction ideas where the risk of loss is limited and the upside potential uncapped due to the durability of the underlying company's competitive advantage. The Group invests in outstanding businesses that have the capacity to compound their value at a high rate for a long time. It often invests in businesses that are either misunderstood by, or uninteresting to the broader market, which allows for attractive entry points. Conduit does not typically invest in businesses in which the majority of the investor community is invested, as the company is of the view that such a strategy will not result in superior long-term performance against the market in general. Conduit is not a trading operation with quick ins and outs, nor a short-term focus; rather it makes select long-term investments in businesses it knows well. This is a key differentiator, which allows the Group to focus on the long-term ownership of quality businesses. Equity investments are viewed as part ownership in real businesses, much like Conduit owns Constantia. Part of this process is having the ability to stay the course even during tough times, as business and the economy moves through cycles. It would be a mistake, in management's view, to sell at the bottom of the cycle when the news is worst, and buy at the peak when the future appears certain. The investment and economic cycle is at an extremely low point at this stage, creating opportunities for the Group.

Investment ideas are valuable intellectual property. The company does not make public its insurance underwriting formulas or expose valuable data such as its trove of medical malpractice data. There are risks

that trader-type market participants can “front-run” Conduit’s long-term investing ideas. As a result, management has decided not to disclose further details about the public equity portfolio.

The Group’s view is that the equity portfolio valuation is significantly below a conservative estimate of the underlying business value and consequently, it is believed that the portfolio will generate substantial returns well into the future.

Private Investments

Conduit owns 51% of the issued ordinary shares in Deal Design Commercial Property and Business Broking Proprietary Limited (“Deal Design”), the holding company of the Century 21 Realty Master Licence in South Africa (“Century 21”). Century 21 is a global leader in real estate brokerage worldwide with approximately 9,400 franchise offices and more than 127,000 independent sales associates located in 80 countries and territories. Century 21 does not own any agencies but rather provides agents with the license to trade under the Century 21 brand, including access to the global marketing power and best in class systems of Century 21. The brand has significantly outperformed an extremely tough South African residential market, which is a major credit to its leadership and people.

Conduit owns 40% of Anthony Richards and Associates Proprietary Limited (“ARA”), a credit recovery specialist. After a period of weak performance, the turnaround at ARA continues, which includes the appointment of a new CEO at the company. ARA generates large free cash from operations and contributed R7.60 million to Conduit’s cash flows during the period under review.

Africa Special Opportunities Capital Proprietary Limited (“ASOC”) is an investment firm that provides companies with tailored solutions to facilitate necessary restructuring or recapitalisation during times of distress. Conduit is an investor in ASOC’s first investment fund and is a shareholder in the management company. ASOC has completed three transactions in the education, media and logistics industries, respectively. While the tough economy delays value realisation, it also creates great opportunities for add-on investments.

Capital Management

Conduit repurchased 4.13 million shares on the open market at an average price of 172 cents (including expenses) during the period under review. No interim dividend has been declared due to the growth opportunities that require capital within the Group.

Prospects

The extremely tough South African economic conditions create headwinds for all of our investee companies much as they do for the rest of South African business. This period has been a difficult one for all South African citizens and corporates. Nevertheless, Conduit has a laser focus on the long-term. Constantia is expected to achieve an underwriting profit after operating expenses in the second half of the fiscal year. However, this profit is not expected to result in an underwriting profit for the full year. The numbers must be seen in the context of Constantia continuing on its ambitious growth drive. The company is full of new and extremely talented individuals who together can achieve great things given enough time and support.

Shareholders should remember that insurance underwriting is volatile, especially in a business that is growing as quickly as Constantia. Many lessons have been learned and the business is improving at a rapid pace. The

private investment portfolio has three solid investments all of which are on course for improved economics in the medium-term. The equity portfolio is and will remain volatile on a mark-to-market basis, and remains, in management's view, materially undervalued. While the past six months were tough, Conduit has an unwavering drive to create value over the long-term through all cycles, even if the fruits will only be enjoyed later.

Sean Riskowitz

Chief Executive Officer

Johannesburg

29 March 2019

INTERIM RESULTS CALL

Shareholders are advised that management will be hosting an investor call at 15:00 CAT on 2 April 2019 to provide commentary in terms of the interim results for the six months ended 31 December 2018.

The call will focus on the Interim 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 1 April 2019, to results@conduitcapital.co.za to pre-register for the call.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Unaudited six months ended 31 Dec 2018 R'000	Restated ¹⁾ unaudited six months ended 31 Dec 2017 R'000	Audited year ended 30 Jun 2018 R'000
Gross written premium	898 366	725 836	1 536 885
Reinsurance premium	(735 533)	(566 837)	(1 144 341)
Net written premium	162 833	158 999	392 544
Net change in provision for unearned premium	(4 553)	(5 615)	(716)
Net insurance income	158 280	153 384	391 828
Reinsurance commission received	218 404	247 931	532 035
Other income	18 040	24 428	53 440
Income from insurance operations	394 724	425 743	977 303
Total insurance expenses	(521 637)	(518 694)	(1 118 381)
Net claims and movement in claims reserves	(49 487)	(116 012)	(245 919)
Insurance contract acquisition costs	(135 662)	(113 346)	(257 035)
Administration and marketing expenses	(328 606)	(275 653)	(604 854)
Other expenses	(7 882)	(13 683)	(10 573)
Net underwriting loss	(126 913)	(92 951)	(141 078)
Net non-insurance income	173 180	189 645	345 098
Investment income	187 198	203 142	368 843
Other income	5 258	1 858	7 359
Administration and marketing expenses	(19 241)	(15 355)	(30 912)
Other expenses	(35)	-	(192)
Operating profit	46 267	96 694	204 020
Finance charges	(296)	(431)	(1 143)
Equity accounted income	1 923	4 510	6 619
Other expenses and losses	-	(230)	(8 191)
Profit before taxation	47 894	100 543	201 305
Taxation	(25 692)	(43 154)	(73 831)
Profit for the year	22 202	57 389	127 474
Other comprehensive income	-	-	-
Total comprehensive income	22 202	57 389	127 474
Attributable to:			
Equity holders of the parent	23 135	57 397	127 222
Non-controlling interest	(933)	(8)	252
Total comprehensive income	22 202	57 389	127 474
Headline earnings	23 135	57 859	133 548
Earnings per share (cents)			
- Basic and Diluted	3.3	10.2	20.0
- Headline and Diluted Headline	3.3	10.3	21.0

¹⁾ The December 2017 numbers were restated to reflect the reclassification of ARA from "Assets held for sale" back to "Investment in associates" due to a decision in June 2018 to take the company off the market. Also, refer to note 2.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited 31 Dec 2018 R'000	Restated ²⁾ unaudited 31 Dec 2017 R'000	Audited 30 Jun 2018 R'000
ASSETS			
Non-current assets	1 695 595	1 297 742	1 512 591
- Property, plant and equipment	18 234	15 369	16 746
- Intangible assets	114 660	103 557	122 878
- Loans receivable	-	9 080	-
- Deferred taxation	47 618	39 260	34 413
- Investment properties	3 360	4 431	3 360
- Investment in associates	116 561	103 543	116 941
- Investments held at fair value	1 395 162	1 022 502	1 218 253
Current assets	1 010 510	924 711	892 726
- Insurance assets	397 803	232 770	278 484
- Loans receivable	-	7 149	6 330
- Investments held at fair value	2	-	2
- Insurance, trade and other receivables	370 844	228 133	263 079
- Taxation	2 509	5 528	4 741
- Cash and cash equivalents	239 352	451 131	340 090
Total assets	2 706 105	2 222 453	2 405 307
EQUITY AND LIABILITIES			
Capital and reserves	1 422 095	1 343 482	1 407 001
- Stated capital	1 163 605	1 185 463	1 170 713
- Retained earnings	248 987	156 027	225 852
Equity attributable to equity holders of the parent	1 412 592	1 341 490	1 396 565
Non-controlling interest	9 503	1 992	10 436
Non-current liabilities	268 344	198 670	235 282
- Policyholder liabilities under insurance contracts	31 494	29 384	37 200
- Interest bearing borrowings	306	638	304
- Deferred taxation	236 544	168 648	197 778
Current liabilities	1 015 666	680 301	763 034
- Insurance liabilities	544 627	394 438	440 135
- Interest-bearing borrowings	309	-	307
- Insurance, trade and other payables	468 032	282 431	317 909
- Taxation	2 698	3 432	4 654
- Bank overdraft	-	-	29
Total equity and liabilities	2 706 105	2 222 453	2 405 317
Net asset value per share (cents)	201.4	188.2	198.0
Tangible net asset value per share (cents)	185.1	173.7	180.6

²⁾ The December 2017 numbers were restated to reflect the reclassification of ARA from "Assets held for sale" back to "Investment in associates" due to a decision in June 2018 to take the company off the market. Also, refer to note 2.

SEGMENTAL REPORT

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	394 724	-	394 724
Expenses	(521 637)	(2 259)	(523 896)
Operating result	(126 913)	(2 259)	(129 172)
Equity accounted income (loss)	(1 460)	3 383	1 923
Investment income	7 260	179 334	186 594
Other	(176)	(1 335)	(1 511)
Profit (loss) before head office expenses and taxation	(121 289)	179 123	57 834
Unallocated net head office expenses			(9 940)
Taxation			(25 692)
Profit for the period			<u>22 202</u>
Capital utilised			
Capital employed at end of period	1 078 031	395,584	1 422 095
Reallocation	(815 059)	815 059	-
Capital utilised at end of period	<u>262 972</u>	<u>1 210 643</u>	<u>1 422 095</u>
Average capital utilised during the period	<u>309 541</u>	<u>958 663</u>	<u>1 227 407</u>

SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017 – RESTATED ³⁾

	Insurance and Risk R'000	Investments R'000	Total R'000
Income from operations	425 743	-	425 743
Expenses	(518 694)	(1 620)	(520 314)
Operating result	(92 951)	(1 620)	(94 571)
Equity accounted loss	-	4 510	4 510
Investment income	3 067	199 238	202 305
Other	(368)	(501)	(869)
Profit (loss) before head office expenses and taxation	(90 252)	201 627	111 375
Unallocated net head office expenses			(10 832)
Taxation			(43 154)
Profit for the period			<u>57 389</u>
Capital utilised			
Capital employed at end of period	1 051 257	265 620	1 345 733
Reallocation	(869 135)	869 135	-
Capital utilised at end of period	<u>182 122</u>	<u>1 134 755</u>	<u>1 345 733</u>
Average capital utilised during the period	<u>94 387</u>	<u>862 309</u>	<u>890 428</u>

³⁾ The December 2017 numbers were restated to reflect the reclassification of ARA from "Assets held for sale" back to "Investment in associates" due to a decision in June 2018 to take the company off the market. Also, refer to note 2.

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)
Loss for the year			<u>127 474</u>
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	<u>356 109</u>	<u>1 068 338</u>	<u>1 407 001</u>
Average capital utilised during the year	<u>217 122</u>	<u>889 864</u>	<u>1 066 025</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited six months ended 31 Dec 2018 R'000	Unaudited six months ended 31 Dec 2017 R'000	Audited year ended 30 Jun 2018 R'000
Net cash flows from operating activities	(94 454)	(77 794)	(112 732)
- Cash utilised by operations	(102 587)	(81 700)	(127 785)
- Interest received	7 864	3 906	15 926
- Finance charges	(296)	(431)	(1 097)
- Dividends received from investments	420	765	1 845
- Taxation received (paid)	145	(334)	(1 621)
Net cash flows from investing activities	2 146	(14 837)	(70 812)
- Net acquisition of associates	-	(5 500)	(8 395)
- Dividends received from associates	3 600	-	-
- Acquisition of subsidiary	-	(15 432)	(15 257)
- Net acquisition of property, plant and equipment	(3 150)	(1 723)	(2 761)
- Net acquisition of intangible assets	(309)	(1 380)	(9 986)
- Net disposal (acquisition) of financial investments	2 005	9 198	(34 413)
Net cash flows from financing activities	(8 401)	335 575	315 494
- Net proceeds from new share issue	-	340 573	340 450
- Treasury stock acquired	(7 108)	(1 713)	(16 340)
- Net movement in interest bearing borrowings	4	(4)	(77)
- Net loans repaid by third parties	-	2 319	9 142
- Loans granted to associates	(1 297)	(5 600)	(17 681)
Total cash movement for the period	(100 709)	242 944	131 950
Cash at the beginning of the period	340 061	208 101	208 101
Cash acquired	-	86	10
Total cash at the end of the period	<u>239 352</u>	<u>451 131</u>	<u>340 061</u>

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Stated capital R'000	Retained earnings R'000	Non- controlling interest R'000	Total R'000
Balance at 1 July 2017	846 603	98 630	310	945 543
Total comprehensive income (loss) for the period	-	57 397	(8)	57 389
Issue of share capital	350 000	-	-	350 000
Share issue costs	(9 427)	-	-	(9 427)
Acquisition of non-controlling interest	-	-	1 690	1 690
Treasury stock acquired through subsidiaries	(1 713)	-	-	(1 713)
Balance at 31 December 2017	1 185 463	156 027	1 992	1 343 482
Total comprehensive income for the period	-	69 825	260	70 085
Share issue costs	(123)	-	-	(123)
Acquisition of non-controlling interest	-	-	8 184	8 184
Treasury stock acquired through subsidiaries	(14 627)	-	-	(14 627)
Balance at 30 June 2018	1 170 713	225 852	10 436	1 407 001
Total comprehensive income (loss) for the period	-	23 135	(933)	22 202
Treasury stock acquired through subsidiaries	(7 108)	-	-	(7 108)
Balance at 31 December 2018	1 163 605	248 987	9 503	1 422 095

NOTES TO THE CONDENSED CONSOLIDATED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2018

1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated unaudited results for the six months ended 31 December 2018 ("Interim 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. The Interim 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 (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. The Group's auditors have not audited or reviewed the Interim Results.

2. Changes in accounting policies - Standards and interpretations effective and adopted in the current year

During the current year, Conduit and the Group adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.1 IFRS 9: Financial instruments

- IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced, which does allow certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. Some changes were however made to the fair value option for financial liabilities to address the issue of own credit risk.
- The new model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets.

- c. IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.
- d. Financial assets and financial liabilities are recognised on the Group's balance sheet when the company becomes a party to the contractual provisions of the instrument.
- e. Loans and receivables and financial liabilities are measured at initial recognition at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

The adoption of this standard did not have any material impact on the results of the Group.

2.2 IFRS 15: Revenue from Contracts with Customers

This standard requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers.

The new standard will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

The adoption of this standard did not have any material impact on the results of the Group.

3. Re-presentation of comparative numbers

In the latter half of the previous financial year, the investment in ARA was reclassified from "Assets held for sale" back to "Investment in associates" due to a decision to take the company off the market. In terms of IFRS 5.28 and IAS 28.21, the investment has to be recognised using the equity method retrospectively, as if it was never classified as held for sale, and tested for impairment as at each period-end. The comparative financial statements also have to be restated.

This restatement has affected each of the following financial statement line items for the period ended 31 December 2017 as follows:

	Previously reported R'000	Adjustment R'000	Restated R'000
Statement of Financial Position			
- Investment in associates	13 543	90 000	103 543
- Assets held for sale	90 000	(90 000)	-
- Deferred tax liability	(166 397)	(2 251)	(168 648)
		<u>(2 251)</u>	
Statement of Profit or Loss and Other Comprehensive Income			
- Equity accounted income (loss)	(84)	4 594	4 510
- Other (expenses and losses) income	4 364	(4 594)	(230)
- Taxation		1 029	
		<u>1 029</u>	

4. Changes in stated capital

During the period under review Midbrook Lane Proprietary Limited ("Midbrook") and Conduit Management Services Proprietary Limited ("CMS"), both wholly-owned subsidiaries, acquired an aggregate 4 130 613 Conduit shares in the market for a total consideration of R7.11 million. The Group accounts reflect these shares as treasury shares.

During 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 R9.55 million were charged against stated capital. During that year, Midbrook and Constantia Insurance Company Limited ("CICL"), both wholly-owned subsidiaries, acquired an aggregate 8 189 497 Conduit shares in the market for a total consideration of R16.34 million. The Group accounts reflect these shares as treasury shares.

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

	31 Dec 2018 '000	31 Dec 2017 '000	30 Jun 2018 '000
Number of shares	701 309	712 811	705 440
- Shares in issue	764 444	764 444	764 444
- Shares held as treasury shares	(63 135)	(51 633)	(59 004)
Weighted average number of shares on which earnings and diluted earnings per share calculations are based	703 410	562 618	635 674
- Shares in issue	764 444	609 417	686 293
- Bonus issue for rights offer ¹⁾	-	4 115	2 075
- Shares held as treasury shares	(61 034)	(50,914)	(52 694)

¹⁾ As required by IAS 33: Earnings per share, we restated the weighted average number of shares in the prior periods by the Bonus issue amount due to the rights offer that took place on 11 December 2017.

5. Impairment assessment of associates

No associate companies were impaired during the period under review. However, during the financial year ended 30 June 2018, the Group impaired its investment in ARA by R8.33 million.

6. Acquisition and disposal of subsidiaries

The Group did not acquire or dispose of any of its subsidiaries during the period under review.

During the financial year ended 30 June 2018, the Group acquired 51% of the issued share capital in Deal Design for a total consideration of R15.43 million. Deal Design has the South African licence for Century 21, the world's largest real estate brand, which offers representation in 80 countries and territories with 9 400 offices and 127 000 property professionals globally.

The purchase consideration was settled in cash and resulted in goodwill of R1.74 million. No goodwill was impaired.

During that same financial year, Constantia sold its shareholding in a dormant subsidiary, The Sportpersons Insurance Broker Proprietary Limited, for a total consideration of R175 000, resulting in a profit of R94 000.

7. 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
31 December 2018				
Listed investments	1 351 861	-	-	1 351 861
Investment properties	-	-	3 360	3 360
Unlisted investments	-	42 405	898	43 303
	<u>1 351 861</u>	<u>42 405</u>	<u>4 258</u>	<u>1 398 524</u>
31 December 2017				
Listed investments	994 488	-	-	994 488
Investment properties	-	-	4 431	4 431
Unlisted investments	-	22 875	8 040	30 915
	<u>994 488</u>	<u>22 875</u>	<u>12 471</u>	<u>1 029 834</u>
30 June 2018				
Listed investments	1 173 391	-	-	1 173 391
Investment properties	-	-	3 360	3 360
Unlisted investments	-	40 862	4 002	44 864
	<u>1 173 391</u>	<u>40 862</u>	<u>7 362</u>	<u>1 221 615</u>

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 2018, the fair value of the investment property was determined on the income/investment approach (using the capitalisation of net income) 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 R100 per m² in the general vicinity of the properties; and
- a capitalisation rate ranging between 9.5% and 10.5%, 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.

8. Taxation

CICL, in consultation with its auditors, decided not to increase its deferred tax asset beyond June 2017 levels due to the underwriting loss incurred during the periods under review. This resulted in potential tax

assets of R20.65 million not being credited to the income statement and R47.95 million not being reflected in assets. The latter number includes the R27.30 million not raised during the prior financial year.

The Group's effective tax rate for the year under review is therefore 53.6% (Jun 2018: 36.7%). If the additional deferred tax asset were raised the effective tax rate would have been 10.5% (Jun 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.

9. Reconciliation of headline earnings

	Unaudited six months ended 31 Dec 2018 R'000	Restated unaudited six months ended 31 Dec 2017 R'000	Audited year ended 30 Jun 2018 R'000
Income attributable to ordinary equity holders of Conduit	23 135	57 397	127 222
Loss on disposal of property, plant and equipment	-	1	4
Impairment of associates	-	594	8 281
Profit on disposal of subsidiary	-	-	(94)
Tax on the items above	-	(133)	(1 865)
Headline earnings	23 135	57 859	133 548

10. 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 R1.50 million ("the Minimum Payment").

The present value of the annuity payments as at 30 June 2018 amounted to R2.90 million ("the Maximum Liability") per an actuarial calculation based on published mortality tables. The Group has initially raised a liability to the value of R1.50 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 R2.90 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. Should it purchase 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 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.

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%.

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

11. Directors

No changes were made to the Board.

12. Dividends

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

13. Events after reporting period

No events occurring between the reporting date and the date of publication of this report resulted in a material impact on the Group.

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

Company secretary:

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Transfer secretaries:

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Rosebank Towers, 15 Biermann Avenue
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