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DISCOVERY ACQUIRES REMAINING SHARE CAPITAL OF £620M PRUDENTIAL HEALTH HOLDINGS

- Discovery acquires remaining 25% stake in holding company which owns PruHealth and PruProtect
- Acquisition affirms Discovery's strategy to have the UK as its second home market
- Shared-value at heart of proposition which aims to replicate global success of Discovery in other markets
- "Vitality" launched as new brand

Discovery Ltd ("Discovery") has entered into a binding agreement to acquire the entire share capital of Prudential Health Holdings Ltd, the holding company of PruHealth and PruProtect, the UK joint venture with Prudential Assurance Company ("Prudential"). The agreement will see Discovery acquire Prudential's remaining 25% stake in the joint venture for £155 million, with immediate effect, valuing the business at approximately £620 million.

The joint venture was initially established as an equally-owned venture between Discovery and Prudential in the private medical insurance market, and subsequently expanded to offer long-term protection products. The joint venture underwent a shareholding change in 2010, at which time Discovery increased its shareholding in the joint venture to 75%. Today, the joint venture covers over 800,000 people, occupying a number four position in the private health insurance market, and a number three position in the life insurance market. In aggregate, the joint venture attracts annual premiums of approximately £480m, with annualised new business in excess of £110m.

The acquisition supports Discovery's ambition to establish a second home market in the UK, for a company which generates £4.5bn of revenue globally, has a FTSE 100 market capitalisation equivalent, and employs over 10,000 people worldwide.

Discovery's model incentivises engagement in wellness, actuarially and clinically determining the effect of engagement on mortality, morbidity and health risk, and pricing these effects dynamically into the insurance premium over time. The effect of the model is to create lower price points, attract better lives, induce behaviour change, and mitigate selective lapses over time.

Discovery's vision in the UK is to fully replicate this shared-value model to create a unique protection business that is responsive to global trends, engaging of members, and creates unique value add to members and society. In essence, using this model, Discovery will move insurance from a low interest category to a brand with which consumers can resonate. The financial manifestation has been strongly-growing new business and operating profit, with compound annual growth of over 20% in each metric for the past two years.

As part of this announcement, the former businesses of PruHealth and PruProtect will be rebranded and consolidated under a single insurance brand, "Vitality", with the business offering two insurance lines, "VitalityHealth" in the private medical insurance market, and "VitalityLife" in the long-term protection market. The rebrand reflects the brand equity that has been built in the Vitality brand over the past two years, but importantly, also the significance of Vitality as a mechanism to deliver Discovery's shared-value insurance model.

Adrian Gore, CEO of Discovery, commented: "We are tremendously excited about this major strategic milestone for Discovery. Taking full ownership of our UK operations signals the significance

of the UK to Discovery and is key to our strategy to replicate Discovery's shared-value insurance model in this market."

"Discovery's increased investment in the UK has always been part of our longer-term strategy. It will afford us the opportunity to realise our vision to further entrench our insurance model and to be recognised as the best protection provider in the UK. Being highly receptive to the needs of our clients, and highly engaged with them, mean that we are well placed to achieve our goal of substantially improving the health of consumers in the UK. In my view, we are well on track to move insurance as a low-interest product category to one that is aspirational."

"Prudential has been a vital partner in this process and it's only with their help over the past decade, and their ongoing support, that this has been possible."

Discovery will work closely with Prudential to ensure a smooth transition, and Prudential will continue to support the business for a transitional period.

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Notes to editors

Background to the acquisition

The acquisition is strategically consistent with Discovery's ambition to have full ownership of the underlying insurance entities in the UK. The current agreement is the culmination of a process that began with Discovery's acquisition, and subsequent contribution to PruHealth as a capital investment, of Standard Life Healthcare in 2010, which saw it increase its shareholding in the joint venture to 75% at that time. As part of that transaction, Discovery and Prudential further entered into reciprocal options over Prudential's remaining 25% shareholding, with the options becoming exercisable during 2015. Under this agreement Discovery will acquire full ownership of the former joint venture, resulting in the original options falling away. The current agreement provides Discovery with a favourable basis for the acquisition of the business, including a collaborative framework with Prudential for the smooth transition of members, and continued support for a period of time.

About Discovery and the shared value model

Discovery is a global insurance company listed on the exchange operated by the JSE Limited in South Africa, operating in the health, life and general insurance markets, as well as in investments and credit. Discovery has 4.4 million members, with 3 million engaged in Vitality. Financially, the business generates £4.5 billion of annual revenue, with earnings per share growth of 26% per annum compounded since 2000. The business has a FTSE 100 market capitalisation equivalent, and employs over 10,000 people worldwide.

The health and long-term protection industries address society's most pressing needs, but face disruptive forces that threaten their traditional business models. Principally, the nature of mortality and morbidity risk is changing, with lifestyle choices driving in excess of 80% of the disease burden and 60% of mortality. The implications for life and health insurance markets are substantial, with static underwriting practices that evaluate and price risk at policy inception failing to take account of the changing nature and causality of risk over the policy term. Discovery's model specifically takes this into account by incentivising engagement in wellness, actuarially and clinically determining the effect of engagement on mortality, morbidity and health risk, and pricing these effects dynamically into the insurance premium over time. The effect of the model is to create lower price points, attract better lives, induce behaviour change, and mitigate selective lapses over time.

Further, the ability to generate excess insurance profits by making members healthier creates a framework within which to share value within the insurance system. This shared-value model delivers better health and value for members, more productive and engaged employees, and a healthier society at large. Importantly, the model is repeatable and scalable, and today Discovery is active in the United States through The Vitality Group, in China through its shareholding in Ping An Health, a subsidiary of Ping An Group, and in Asia in a joint venture with AIA, to deliver the shared-value model in their local markets.

The UK opportunity

Strategically, the UK health and life insurance markets present opportunity; the UK protection market is the third-largest globally; underwriting approaches tend to be static and based on pre-existing conditions at policy inception; the ubiquity of the NHS creates an environment in which resources are mainly applied towards treatment, rather than prevention, of disease; renewed economic growth creates demand for insurance, both in health and life insurance; and increasingly, companies are recognising their social obligations toward employee wellbeing. In the UK, the combination of high levels of underinsurance and low retention rates reflect the inability of current products to adequately address the structural issues at play.

Discovery's vision in the UK is to fully replicate the shared-value model to create a unique protection business that is responsive to global trends, engaging of members, and creates unique value add to members and society. In essence, using this model, we will move insurance from a low interest category to a brand with which consumers can resonate. The repeatability of Discovery's model in the UK is well established; over 8,000 intermediaries write health and protection business for the company, and are serviced by a unique Franchise distribution model that employs over 200 Account Managers; the combination of clinical and actuarial capabilities within PruHealth support industry-low loss ratios, a unique Full Refund consultant proposition, and an extension of benefits into non-traditional areas; Vitality engagement is high and increasing, with strong evidence of behaviour change and meaningful correlations between Vitality engagement and lapse and claims outcomes; and the escalation of the Vitality brand through a differentiated advertising and sponsorship approach, including the appointment of Vitality Ambassadors and various sponsorship properties, have resulted in growing consumer awareness. The financial manifestation has been strongly-

growing new business and operating profit, with over 20% growth in each metric for the past two years.

Financially, Vitality is targeting £1 billion of earned premiums and £200 million of annualised new business over the next 5 years.

Transitional arrangements

The change in ownership is expected to have no operational impact on the business or members, with predominantly all operational functions housed and conducted within the joint venture itself.

Funding

Discovery anticipates funding the acquisition of the 25% stake through a combination of internal resources and debt.

Conditions precedent

There are no outstanding conditions precedent for the finalisation of the acquisition.