# CONDUIT CAPITAL GROUP

## CONDENSED CONSOLIDATED UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

**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 2016**

**GENERAL COMMENTARY**

Conduit Capital is a holding company owning subsidiaries primarily involved in the insurance industry in South Africa. Conduit's ambition is to develop a high quality, diversified insurance group complemented by a non-insurance, value-oriented investment programme. The Group's objective is to compound underlying business value in excess of the market generally over the long term.

**FINANCIAL RESULTS**

**Constantia Insurance Group ("Constantia")**

Constantia comprises a group of insurance and related companies wholly owned by Conduit. The three separate insurance subsidiaries[1] are each governed by their own board of directors and managed centrally by the Constantia management team. We assess the results and operations of Constantia on an "all in" basis.

Volker von Widdern was appointed as the Chief Executive Officer of Constantia on 18 November 2016. Volker has previously worked at Guardrisk (now part of Momentum) and Marsh, a global leader in insurance broking and risk management. We are tremendously excited at the opportunity to have Volker lead the Constantia team. Our sincere thanks are extended to the former CEO, Robert Shaw, for his valuable contribution to Constantia over the years.

We monitor all aspects of Constantia's performance but pay particular attention to three key metrics: the Combined Ratio[2], Return on Invested Capital and Growth in Investable Assets (excess capital and money that we hold on behalf of other people, but that we can invest for our own benefit in the meantime). While underlying growth in premium is important, what really matters is how sustainably profitable that premium actually is.

For the period under review, Constantia did not achieve any of its key performance metrics. The reasons for this are explained below.

Constantia's gross premium increased by 7.4% to R516.96 million due to large increases in our accident and health book, primarily through increased GAP cover policies and much larger volumes from our medical evacuation insurance business. The mix has changed materially from a year ago. The increases were partially offset by a R175.21 million reduction in gross premiums due to:

- CLAH terminating an agreement with a healthcare underwriting manager ("UM" or "UMA") (R55.94 million reduction); and
- annual premium in CICL's customer protection reinsurance business being replaced by monthly premium (R119.27 million reduction, as existing customers who have bought annual insurance will not need to purchase new insurance for a year or longer, whereas new clients now only purchase one month's insurance at a time). .

[1] Constantia Insurance Company Limited ("CICL"), Constantia Life & Health Assurance Company Limited ("CLAH") and Constantia Life Limited ("CLL").
[2] The combined ratio is calculated as net claims plus expenses divided by net earned premium.

Net premium reduced by 26.6% to R163.66 million due to increased solvency reinsurance. We use solvency reinsurance to reduce the statutory capital that we are 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. Adjusting for solvency reinsurance, we would have reported net premiums of R446.95 million (up 45.4% from the prior comparable period) and our statutory capital requirement in terms of SAM interim measures would have been R109.99 million higher (Dec 2015: R33.60 million).

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

| | Six months to 31 December 2016 | | | | Six months to 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross R'000 | Net R'000 | Net excl. solvency reinsurance R'000 | Under-writing result R'000 | Gross R'000 | Net R'000 | Net excl. solvency reinsurance R'000 | Under-writing result R'000 |
| Motor | 60 780 | 34 906 | 38 662 | (7 918) | 26 499 | 10 919 | 10 919 | (6 735) |
| Property | 33 413 | 13 775 | 13 775 | 383 | 73 187 | 13 326 | 13 326 | 1 989 |
| Accident and Health | 384 059 | 86 647 | 366 180 | (29 748) | 251 614 | 101 429 | 187 594 | (2 348) |
| Guarantee | 12 921 | 6 255 | 6 255 | (2 641) | 11 739 | 6 854 | 6 854 | 6 200 |
| Miscellaneous | 11 194 | 7 530 | 7 530 | (202) | 35 495 | 7 723 | 7 975 | 320 |
| Assistance | 14 594 | 14 544 | 14 544 | (1 126) | 80 815 | 80 815 | 80 815 | (652) |
| Unallocated | - | - | - | (1 966) | - | - | - | (1 163) |
| Total | 516 961 | 163 657 | 446 946 | (43 218) | 479 349 | 221 066 | 307 483 | (2 389) |

Constantia delivered a half-year loss of R29.11 million after tax. There are three key features that contextualise Constantia's performance during the period:

- First, the premium rate charged over the period on our GAP cover book (part of our accident and health portfolio and our largest line by gross premium) was insufficient to offset an increased claims experience in this market during 2016 (as we are writing much more GAP business now than we did in the past, this has also increased our absolute level of claims). We were only able to increase premiums with effect from 1 January 2017 (this has since been amended so that premium pricing is now far more dynamic) and so had to bear higher claims cost against a static premium pricing factor. The GAP market has come under pressure from various developments in the wider healthcare industry, which has seen market wide increases in rates and some competitor exits. We are working closely with our UMAs in this area and are confident their business models are sound and that the premium rate increases will return this business to profitability on an underwriting level. Early indications are that progress is indeed being made. We have also worked closely with the UMAs in this line to better understand and interpret their data as part of a bigger drive to build more robust insurance systems and products, as detailed in point three below. The loss due to the premium pricing issue was about R17.05 million for the period (pre-tax).

- Second, we wrote and retained more business for our own account, mainly in the accident and health book. This has the effect of creating new business reserving strain: when new business is introduced to an insurer, or existing business increased, an increase in reserves is generally necessary by way of provisions for unearned premium reserves and provisions raised for claims that have been incurred, but not yet paid. Thereafter, reserves are usually only maintained, with less pronounced movements between one year and the next (year 1 reserves are settled in year 2 and a new reserve is created for year 2, and so on). We were still effectively in year 1 during the period under review. You can think of this as "growing pains". From an accounting perspective, it is correct that profits are impaired by the value of these reserves, as it reflects the true accounting position of the Group.

From an economic viewpoint, however, this accounting does not reflect reality. We illustrated this with an example on page 11 of our 2016 Integrated Annual Report. We provisioned an extra R7.00 million pre-tax because of the growth of this book. Adjusting for this accounting provision reduces the after-tax loss experienced by Constantia to R24.07 million.

- Third, and most importantly, Constantia is undergoing a transformation from a small insurer collecting marginal profits to a large, innovative and entrepreneurial insurer that aims to be the gold standard in the industry. To move closer to our objective and accelerate growth in the business, Constantia hired more excellent people and made critical investments into business infrastructure, including Information Technology investments. The result was that operating expenses (excluding amounts paid to UMs) increased by 89.3% to R50.55 million. This higher expense base is the result of a drive to increase the capacity of the group by way of attracting appropriately skilled people and systems and to handle much larger insurance business in the future. These costs and investments are being made ahead of actual premium growth, as we cannot achieve our ambitious growth goals without the requisite talent and background infrastructure. These costs negatively impacted our income statement this year (and may well do so for the next few years), but the increase in our earnings power because of these investments is exponential. We welcome the new people to the Constantia family where we hope you will all find a rewarding long-term home. Excluding the increase in growth driven operating expenses, Constantia's after tax loss would have been approximately R22.00 million.

Our medical evacuation insurance business in partnership with OracleMed Health (one of our UMAs) provides cover for and facilitates the evacuation, transportation or treatment of individuals experiencing medical issues or emergencies, mostly on the African continent. The business performed well in the period despite many challenges customary to the practice of doing business in Africa. This business falls into our accident and health premium category.

Constantia launched South Africa's only homegrown medical malpractice insurance offering in November 2016. The project was many years in the making and is set to revolutionise the indemnity cover available to South African doctors. The market has been yearning for a trusted local solution and we are delighted that Constantia has capitalised on the opportunity with a multi-decade investment under the name of EthiQal Medical Risk Protection. Medical malpractice insurance requires best in class risk management, underwriting and technical skills and the capital to withstand claims many years into the future. We anticipate we will need to build sufficient reserves for several years before realising any accounting profits on this investment – but when the profits come, they should be worth the wait.

Our direct insurance partnership with the Automobile Association of South Africa ("AA") (called "Insurance Driven by the AA") is progressing well and exceeding targets. The AA is the most trusted name in vehicle insurance. Give them a call at 0861 001 000 or visit the website at http://www.aainsured.co.za/ to see if they cannot save you money on your car and home insurance.

Post period end, a further R100 million was injected into Constantia. The insurer remains well capitalised and is focused on building an environment to handle, attract and retain new business. It is well positioned for growth and increased earnings power, notwithstanding the performance from an accounting perspective.

**Equity investments**

The Group's equity portfolio produced a pre-tax return of -1.36% over the period. The equity portfolio is split between a subsidiary at holding company level and those equities owned by our insurance businesses. The former is not subject to insurance regulation by way of restrictions or penalties on asset allocation, while the latter is. The insurance regulations currently in place do not have a materially negative effect on our preferred equity investments or their weightings in our portfolio.

The Group's strategy is to own a concentrated portfolio of *compounding* type businesses *permanently.* We believe in high conviction ideas where the risk of loss is limited and the upside potentially uncapped due to the durability of the underlying company's competitive advantage. Whilst we may not be so fortunate as to own our best ideas *forever,* due to the winds of change and opportunity cost, it is certainly our intention to be ultra-long term anchor shareholder partners in these tremendous enterprises. We do not trade share symbols or engage in leveraged investments – we invest in high quality businesses that happen to be listed. You should view our public investments the same way you view our 100% ownership of Constantia.

Our top five investments at 31 December 2016 represented approximately 90.0% of our equity invested capital. In our view this reflects the interplay between our conviction and investment sizing, which has been consistent over the years.

We have an unwavering commitment to the long-term, a singular focus on great compounders, an incredibly high opportunity cost and a decidedly advantageous willingness for inaction. The fact that our portfolio has not required high turnover or multiple new ideas to maintain its return momentum is evidence of the quality of our underlying businesses and their compounding capabilities[3].

The twelve months of 2016 can best be described as a year in which our underlying businesses as a group achieved record revenues, profits and margins, but saw little to no appreciation in their share prices. We took advantage of the market's inefficiency by building our stakes in our positions at values well below our view of their intrinsic value. This is the second year we have experienced such a phenomenon. Fortunately, we pay much attention to business performance and less attention to share price. We cannot predict when the market will recognise the inherent value of our companies, but we firmly believe the realisation will occur. We are structured in such a way that in a scenario like this, we have a major advantage against most of the competition – we have *patience, conviction,* and a lot of *time*. These factors greatly increase the probability that the Group will perform well over the long term.

Our opportunity set remains exceptionally attractive, through the valuations of several of our current portfolio companies, as well as through high quality opportunities that have entered our price range. In addition, there are opportunities to work with some of our existing core positions to accelerate their development and consequently their growth in intrinsic value.

**Other investments**

Conduit owns 40% of Anthony Richards and Associates (Pty) Ltd ("ARA"), a credit recovery specialist. As ARA has been reflected as an "Asset Held for Sale" in our books since the June 2016 year-end, ARA's results have not been included in the results for the six months to 31 December 2016.

Africa Special Opportunities Capital ("ASOC") is an investment firm that provides companies with flexible funding solutions to facilitate necessary restructuring and recapitalisation. Conduit invested in ASOC's first fund and is also a shareholder in the ASOC management company. The ASOC team is patient enough to wait for the fat pitch, and such a pitch arrived just after the December period-end. ASOC signed a deal to acquire a network of professional day-care facilities, specialising in early childhood development. The company was founded in 2003 and has grown to a network of

[3] Not to mention our tax efficiency

12 schools (8 owned and 4 franchised) across Gauteng. The demand for private education in South Africa is insatiable and ASOC has shown its ability to bed down a good deal through this first transaction.

**Prior period currency translation adjustments**

We established that an incorrect formula was used to determine the Rand value of foreign premiums receivable in Constantia during the 2015 and 2016 financial periods. This resulted in net assets being overstated by R22.39 million at 30 June 2016 and necessitated the restatement of the prior period comparative numbers. Further details are reflected in note 2.2 to the financial results.

**Midbrook Lane and Snowball Wealth**

On 15 September 2016 shareholders were informed via SENS that Conduit had concluded agreements to acquire Midbrook Lane (Pty) Ltd and Snowball Wealth (Pty) Ltd. The acquisitions were approved by the requisite majority of shareholders in a general meeting held on 28 October 2016. Shareholders are referred to more detailed announcements and the circular for further information on the companies acquired by Conduit. The Midbrook Lane transaction closed on 7 February 2017 while the Snowball Wealth transaction is still subject to two outstanding Conditions Precedent. The transactions are expected to bolster the capital and earnings power of Conduit in line with our stated intention of compounding our underlying business value at a high rate for a long time.

**Conclusion**

Conduit's job is to:

a. allocate capital judiciously across the Group; and
b. create platforms via our subsidiaries and associates that attract the best and the brightest in pursuit of our ultimate goal – to compound the underlying value of the Group at a high rate over the very long term.

The Group is well positioned to pursue this goal by way of great people, better systems and vastly increased (and increasing) earnings power. The ride will be bumpy. There may be some turbulence. But we have the right people, determination and intelligent fanaticism to lead the Group to great things over time.

**Sean Riskowitz**
*Chief Executive Officer*
Johannesburg
21 February 2017

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Condensed Consolidated Statement of Comprehensive Income has been reformatted in order to make it less complicated to distinguish the Group's underwriting results from other income and expenses. The prior periods' Condensed Consolidated Statements of Comprehensive Income have been presented in a manner similar to that of the current period in order to simplify comparative analysis.

| | Unaudited six months ended 31 Dec 2016 R'000 | Restated [1] unaudited six months ended 31 Dec 2015 R'000 | Restated [1] audited year ended 30 Jun 2016 R'000 |
|---|---|---|---|
| **Gross written premium** | 516 961 | 479 349 | 1 005 586 |
| Reinsurance premium | (353 304) | (258 283) | (629 530) |
| **Net written premium** | 163 657 | 221 066 | 376 056 |
| Net change in provision for unearned premium | (7 578) | 5 424 | (348) |
| **Net premium income** | 156 079 | 226 490 | 375 708 |
| Reinsurance commission received | 179 445 | 157 776 | 298 973 |
| Other income | 15 433 | 2 108 | 18 036 |
| **Income from insurance operations** | 350 957 | 386 374 | 692 717 |
| **Total insurance expenses** | (394 175) | (388 763) | (713 107) |
| Net claims and movement in claims reserves | (84 889) | (104 805) | (187 318) |
| Insurance contract acquisition costs | (94 041) | (103 175) | (180 064) |
| Administration and marketing expenses | (215 245) | (174 499) | (332 923) |
| Other expenses | - | (6 284) | (12 802) |
| **Net underwriting loss** | (43 218) | (2 389) | (20 390) |
| **Net non- insurance income (expenses)** | 2 444 | (8 269) | (13 941) |
| Investment income | 9 749 | 3 843 | 4 513 |
| Other income | 38 | 98 | 195 |
| Administration and marketing expenses | (7 343) | (7 210) | (13 649) |
| Other expenses | - | (5 000) | (5 000) |
| **Operating loss** | (40 774) | (10 658) | (34 331) |
| Finance charges | (173) | (204) | (924) |
| Equity accounted (loss) income | (255) | 8 710 | 13 153 |
| Business combination expenses | (5 035) | - | - |
| Loss on disposal of property, plant and equipment | (16) | - | (261) |
| Impairment of associate | - | - | (13 075) |
| Profit on disposal of joint venture | - | - | 1 478 |
| **Loss before taxation** | (46 253) | (2 152) | (33 960) |
| Taxation | 11 760 | (1 355) | 874 |
| **Loss for the period** | (34 493) | (3 507) | (33 086) |
| Other comprehensive income | - | - | - |
| **Total comprehensive loss** | (34 493) | (3 507) | (33 086) |
| **Attributable to:** | | | |
| Equity holders of the parent | (34 381) | (3 421) | (32 855) |
| Non-controlling interest | (112) | (86) | (231) |
| **Total comprehensive loss** | (34 493) | (3 507) | (33 086) |
| **Headline loss** | (29 335) | (3 421) | (17 741) |
| **Loss per share (cents)** | | | |
| - Basic | (10.4) | (1.2) | (10.6) |
| - Diluted | (10.4) | (1.2) | (10.6) |
| - Headline | (8.9) | (1.2) | (5.7) |
| - Diluted headline | (8.9) | (1.2) | (5.7) |

[1] Certain amounts reflected here do not correspond to the numbers as previously reported. Refer to Note 2 for further detail.

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Unaudited 31 Dec 2016 R'000 | Restated [1] unaudited 31 Dec 2015 R'000 | Restated [1] audited 30 Jun 2016 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | 342 661 | 368 493 | 324 653 |
| - Property, plant and equipment | 12 863 | 9 065 | 10 787 |
| - Intangible assets | 38 291 | 35 079 | 37 226 |
| - Loans receivable | 18 297 | 7 963 | 16 783 |
| - Deferred taxation | 18 557 | 16 045 | 8 098 |
| - Investment properties | 4 351 | 5 928 | 4 351 |
| - Investment in associates | 2 376 | 125 872 | 133 |
| - Investment in joint ventures | - | 666 | - |
| - Investments held at fair value | 247 926 | 167 875 | 247 275 |
| **Current assets** | 850 051 | 900 269 | 738 837 |
| - Insurance assets | 332 869 | 316 086 | 267 108 |
| - Loans receivable | 2 365 | 1 180 | 2 365 |
| - Trade and other receivables | 237 860 | 180 497 | 182 533 |
| - Taxation | 25 165 | 12 657 | 14 358 |
| - Cash and cash equivalents | 251 792 | 389 849 | 272 473 |
| **Assets held for sale** | 110 000 | - | 110 000 |
| **Total assets** | 1 302 712 | 1 268 762 | 1 173 490 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | 527 652 | 591 696 | 562 145 |
| - Ordinary share capital and share premium | 323 195 | 323 167 | 323 195 |
| - Retained earnings | 204 223 | 268 038 | 238 604 |
| Equity attributable to equity holders of the parent | 527 418 | 591 205 | 561 799 |
| Non-controlling interest | 234 | 491 | 346 |
| **Non-current liabilities** | 61 647 | 68 209 | 52 883 |
| - Policyholder liabilities under insurance contracts | 25 987 | 32 606 | 25 987 |
| - Deferred taxation | 35 660 | 35 603 | 26 896 |
| **Current liabilities** | 713 413 | 608 857 | 558 462 |
| - Insurance liabilities | 401 784 | 347 431 | 306 446 |
| - Trade and other payables | 311 324 | 255 180 | 251 744 |
| - Taxation | 305 | 6 246 | 272 |
| **Total equity and liabilities** | 1 302 712 | 1 268 762 | 1 173 490 |
| Net asset value per share (cents) | 159.2 | 178.4 | 169.5 |
| Tangible net asset value per share (cents) | 126.5 | 141.8 | 137.2 |

[1] Certain amounts reflected here do not correspond to the numbers as previously reported. Refer to Note 2 for further detail.

## SEGMENTAL REPORT

The report has been reformatted to more accurately align the performance of the different segments with the new format used for the Statement of Comprehensive Income. The prior period segmental report has been presented in a manner similar to that of the current period in order to simplify comparative analysis. For clarity, the Insurance and Risk segment shows the profit or loss and capital employed in insurance and risk activities only (excluding discretionary investments of the insurers). The Investments segment shows the profit or loss and capital employed in the discretionary investment activities of the Group (including the insurers).

**SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

| | Insurance and Risk R'000 | Investments R'000 | Total R'000 |
|---|---|---|---|
| **Operating loss** | (43 218) | (765) | (43 983) |
| Equity accounted loss | - | (255) | (255) |
| Investment income (loss) | 6 304 | 2 201 | 8 505 |
| Other | (189) | - | (189) |
| **(Loss) profit before taxation** | (37 103) | 1 181 | (35 922) |
| Unallocated net head office expenses | | | (10 331) |
| Taxation | | | 11 760 |
| **Loss for the period** | | | (34 493) |
| **Capital utilised** | | | |
| Capital employed at end of period | 126 504 | 336 603 | 527 652 |
| Capital utilised at end of period | 126 504 | 277 139 | 468 189 |
| Average capital utilised during the period | 142 585 | 263 798 | 477 007 |

**SEGMENTAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2015 (RESTATED) [1)]**

| | Insurance and Risk R'000 | Investments R'000 | Total R'000 |
|---|---|---|---|
| **Operating loss** | (2 389) | (692) | (3 081) |
| Equity accounted income | 124 | 8 586 | 8 710 |
| Investment income (loss) | 6 217 | (2 859) | 3 358 |
| Other | (962) | (5 000) | (5 962) |
| **Profit before taxation** | 2 990 | 35 | 3 025 |
| Unallocated net head office expenses | | | (5 177) |
| Taxation | | | (1 355) |
| **Loss for the period** | | | (3 507) |
| **Capital utilised (Restated)** | | | |
| Capital employed at end of period | 153 947 | 274 698 | 591 696 |
| Capital utilised at end of period | 153 947 | 199 144 | 516 141 |
| Average capital utilised during the period | 197 171 | 142 261 | 385 456 |

[1)] Certain amounts reflected here do not correspond to the numbers as previously reported. Refer to Note 2 for further detail.

**SEGMENTAL REPORT FOR THE YEAR ENDED 30 JUNE 2015 (RESTATED)** [1)]

| | Insurance and Risk R'000 | Investments R'000 | Total R'000 |
|---|---|---|---|
| **Operating loss** | (20,390) | (1 405) | (21 795) |
| Equity accounted income (loss) | (676) | 13 829 | 13 153 |
| Investment income | 14 793 | (12 105) | 2 688 |
| Other | (2 331) | (5 000) | (7 331) |
| **Loss before taxation** | (8 604) | (4 681) | (13 285) |
| Unallocated net head office expenses | | | (20 675) |
| Taxation | | | 874 |
| **Loss for the period** | | | (33 086) |
| | | | |
| **Capital utilised (Restated)** | | | |
| Capital employed at end of period | 152 421 | 338 967 | 562 145 |
| Capital utilised at end of period | 152 421 | 263 414 | 486 591 |
| Average capital utilised during the period | 181 826 | 191 587 | 450 145 |

[1)] Certain amounts reflected here do not correspond to the numbers as previously reported. Refer to Note 2 for further detail.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Unaudited six months ended 31 Dec 2016 R'000 | Unaudited six months ended 31 Dec 2015 R'000 | Audited year ended 30 Jun 2016 R'000 |
|---|---|---|---|
| Net cash flows from operating activities | (6 433) | (16 172) | (39 253) |
| Net cash flows from investing activities | (12 734) | (61 415) | (145 413) |
| Net cash flows from financing activities | (1 514) | 154 504 | 144 207 |
| **Total cash movement for the period** | (20 681) | 76 917 | (40 459) |
| Cash at the beginning of the period | 272 473 | 312 932 | 312 932 |
| **Total cash at the end of the period** | 251 792 | 389 849 | 272 473 |

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Share capital and share premium R'000 | Retained earnings R'000 | Non-controlling interest R'000 | Total R'000 |
|---|---|---|---|---|
| Balance at 1 July 2015 (as previously reported) | 176 704 | 278 544 | 577 | 455 825 |
| Correction of prior period error | - | (7 085) | - | (7 085) |
| **Balance at 1 July 2015** | 176 704 | 271 459 | 577 | 448 740 |
| Total comprehensive loss for the period | - | (3 421) | (86) | (3 507) |
| - As previously reported | - | 10 845 | (86) | 10 759 |
| - Correction of prior period error | - | (14 266) | - | (14 266) |
| Issue of share capital | 150 000 | - | - | 150 000 |
| Share issue costs | (3 537) | - | - | (3 537) |
| **Balance at 31 December 2015** | 323 167 | 268 038 | 491 | 591 696 |
| Total comprehensive loss for the period | - | (29 434) | (145) | (29 579) |
| - As previously reported | - | (34 662) | (145) | (34 807) |
| - Correction of prior period error | - | 5 228 | - | 5 228 |
| Share issue costs | 28 | - | - | 28 |
| **Balance at 30 June 2016** | 323 195 | 238 604 | 346 | 562 145 |
| Total comprehensive loss for the period | - | (34 381) | (112) | (34 493) |
| **Balance at 31 December 2016** | 323 195 | 204 223 | 234 | 527 652 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Basis of preparation

The accounting policies applied in the preparation of these condensed consolidated unaudited financial statements for the six months ended 31 December 2016 ("interim results") are in accordance with International Financial Reporting Standards ("IFRS") and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee 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 2016. 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, 2008 (Act 71 of 2008), as amended, and the Listings Requirements of JSE Limited under the supervision of Mr Lourens Louw, the Financial Director. The interim results have not been audited or reviewed by the Group's auditors.

### 2. Restatement of comparative numbers

2.1. Two of the Group's underwriting managers reported information relating to the 2015 financial year only in the 2016 financial year. The error was only identified in the second half of the 2016 financial year, which resulted in insurance revenue, claims and insurance contract acquisition costs reported for the period to 31 December 2015 being overstated, while administration and marketing expenses were understated. The error had no impact on prior period earnings or equity.

The error has been corrected by restating each of the affected Statement of Comprehensive Income line items for the six months to 31 December 2015 as follows:

| | Previously reported six months ended 31 Dec 2015 R'000 | Adjustment R'000 | Restated six months ended 31 Dec 2015 R'000 |
|---|---|---|---|
| Insurance revenue | 481 326 | (1 977) | 479 349 |
| Net claims and movement in claims reserves | (134 188) | 29 383 | (104 805) |
| Insurance contract acquisition costs | (103 404) | 229 | (103 175) |
| Administration and marketing expenses | (146 864) | (27 635) | (174 499) |

The above restatements have been taken account of in the published results for the year ended 30 June 2016

2.2. It was established that an incorrect formula was used to determine the Rand value of foreign premiums receivable during the 2015 and 2016 financial periods, resulting in an overstatement of net assets during those periods. The error was only identified immediately prior to publication of this interim report, which resulted in the accounts detailed below being incorrectly reported for the prior comparative periods. The error had a further negative impact of R7.085 million on earnings and equity for the 10 months ending 30 June 2015.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

| | **Six months ended 31 Dec 2015** | | | **Year ended 30 Jun 2016** | | |
|---|---|---|---|---|---|---|
| **Impact on equity** | Previously reported R'000 | Adjustment R'000 | Restated R'000 | Previously reported R'000 | Adjustment R'000 | Restated R'000 |
| Trade and other receivables | 222 116 | (41 619) | 180 497 | 203 878 | (21 345) | 182 533 |
| Taxation receivable | 12 657 | - | 12 657 | 13 846 | 512 | 14 358 |
| Insurance liabilities | (359 395) | 11 964 | (347 431) | (305 398) | (1 048) | (306 446) |
| Taxation payable | (14 550) | 8 304 | (6 246) | (6 030) | 5 758 | (272) |
| Net reduction in equity | | (21 351) | | | (16 123) | |
| **Impact on Statement of Comprehensive Income** | | | | | | |
| Currency translation (losses) profits | 13 530 | (19 814) | (6 284) | (251) | (12 551) | (12 802) |
| Taxation | (6 903) | 5 548 | (1 355) | (2 639) | 3 513 | 874 |
| Reduction in profitability | | (14 266) | | | (9 038) | |

## 3. Changes in share capital

There were no changes to the issued share capital during the period under review. 75 000 000 ordinary shares totalling R150.0 million were issued by way of a rights offer on 14 December 2015. Share issue costs of R3.5 million have been charged to the Share Premium account.

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

| | 31 Dec 2016 '000 | 31 Dec 2015 '000 | 30 Jun 2016 '000 |
|---|---|---|---|
| Number of shares | 331 377 | 331 377 | 331 377 |
| - Shares in issue | 331 380 | 331 380 | 331 380 |
| - Shares held as treasury shares | (3) | (3) | (3) |
| Weighted average number of shares on which earnings and diluted earnings per share calculations are based | 331 377 | 289 076 | 310 111 |
| - Shares in issue | 331 380 | 263 717 | 297 363 |
| - Bonus issue for rights offer [1)] | - | 25 362 | 12 751 |
| - Shares held as treasury shares | (3) | (3) | (3) |

[1)] The weighted average number of shares in comparative periods has been restated by a Bonus issue amount due to the rights offer that took place on 14 December 2015, as required by IAS 33: Earnings per share.

## 4. 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 2016** | | | | |
| Listed investments | 247 526 | - | - | 247 526 |
| Unlisted investments | - | 400 | - | 400 |
| Investment properties | - | 4 351 | - | 4 351 |
| | 247 526 | 4 751 | - | 252 277 |
| **31 December 2015** | | | | |
| Listed investments | 167 875 | - | - | 167 875 |
| Investment properties | - | 5 928 | - | 5 928 |
| | 167 875 | 5 928 | - | 173 803 |
| **30 June 2016** | | | | |
| Listed investments | 247 275 | - | - | 247 275 |
| Investment properties | - | 4 351 | - | 4 351 |
| | 247 275 | 4 351 | - | 251 626 |

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; and
- Financial assets classified in Level 2 have been valued by an independent third party according to a formula (using the fair market values of the underlying assets in the investment) in terms of which the investment could have been liquidated as at the reporting date.

## 5. Reconciliation of headline loss

| | Unaudited six months ended 31 Dec 2016 R'000 | Restated unaudited six months ended 31 Dec 2015 R'000 | Restated audited year ended 30 Jun 2016 R'000 |
|---|---|---|---|
| Loss attributable to ordinary equity holders of Conduit | (34 381) | (3 421) | (32 855) |
| Net loss on revaluation of investment properties | 16 | - | 31 |
| Net loss on disposal of intangibles, property, plant and equipment | - | - | 261 |
| Profit on disposal of joint ventures | - | - | (1 478) |
| Impairment of associates | - | - | 13 075 |
| Business combination expenses | 5 035 | - | - |
| Tax on the items above | (5) | - | 3 225 |
| Headline earnings | (29 335) | (3 421) | (17 741) |

## 6. Contingent liabilities

6.1. A portfolio acquisition agreement, effective 1 September 2015, exists between the Constantia Insurance Company Limited 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 500 000 ("the Minimum Payment"). The present value of the annuity payments as at 30 June 2016 amounted to R3 081 746 per an actuarial calculation based on published mortality tables. The Group has raised a liability to the value of the Minimum Payment and confirms that it has a contingent liability of R1 581 746 as at the reporting date.

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

## 7. Directors

- Mr Tyrone Moodley's status changed from "Non-executive" to "Executive" on 20 February 2017; and
- Mr Adrian Maizey was appointed to the Board as a Non-executive Director on 20 February 2017. Mr Maizey will chair the Investment Committee.

## 8. Dividends and other distributions

In line with the Group's strategy, the Board has not recommended any dividend payment to ordinary shareholders (2015: Nil).

## 9. 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.

**Directors:**

| | |
|---|---|
| Executive directors: | Sean Riskowitz (Chief Executive Officer), Lourens Louw (Financial Director), Tyrone Moodley, Gavin Toet |
| Non-executive directors: | Ronald Napier (Chairman)*, David Harpur*, Jabulani Mahlangu*, Adrian Maizey, Barry Scott*, Rosetta Xaba* |

* Independent

**Company secretary:**

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

**Registered address:**

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Bryanston, Sandton, 2191
PO Box 97, Melrose Arch, 2076
Telephone: +27 (0)10 020 3460
Facsimile: +27 (0)86 522 8742

**Transfer secretaries:**

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Avenue
Rosebank, Johannesburg, 2196

**Sponsor:**

Merchantec Capital