

CHAIRMAN'S REPORT



JOHANN RUPERT
CHAIRMAN

ECONOMIC OVERVIEW

The South African economy continues to face a number of headwinds, domestic as well as global. These challenges, including electricity loadshedding and labour unrest, have conspired to weaken business and consumer confidence. The problems were further highlighted by the 1.3% quarter-on-quarter (annualised) contraction in South Africa's global gross domestic product (GDP) during the second quarter of 2015. Low confidence levels do not bode well for domestic demand growth, private sector fixed investment and employment creation in the second half of 2015 and 2016.

GDP growth disappointed in the first quarter of 2015, mainly on account of weak US GDP growth and a further moderation in Chinese growth. In the second quarter, the US economy bounced back from the earlier weather and strike-related weakness. Furthermore, Chinese GDP growth stabilised as recent stimulus measures put a floor under the Chinese economy. However, underlying Chinese demand for raw materials remains particularly weak. A continuation of recent turmoil in the Chinese stock market is a downside growth risk over the short term. In Europe, the incoming data is for the most part signalling continued weak growth. Europe's refugee and migrant crisis has to some extent overshadowed economic data releases of late. The European Union is grappling to cope with a surge in migrants fleeing war and economic hardship that has already resulted in more than 3 000 deaths in 2015.

Besides the problems in China, the world economy is faced with at least two important risk factors. Although the most recent developments are more positive, the ongoing Greek debt saga provides downside risk to eurozone growth prospects. Secondly, any disorderly financial market reaction to the widely expected start of US Fed interest rate normalisation could have adverse real economy impacts. Despite these risks, the general expectation is for improved global growth in 2016. However, South Africa's key export commodity prices are set to remain subdued amid global oversupply, partly driven by softer Chinese demand. The sustained lower prices are already having a negative impact on the South African mining sector. Leading companies have announced major restructuring plans with thousands of jobs at risk.

Prospects for domestic GDP growth continue to be scaled down. Whereas growth was negatively impacted by the five-month platinum mining strike in 2014, electricity loadshedding, declining commodity prices and spreading drought conditions are major constraints in 2015. The expectation for continued growth weakness through 2016 is to a large extent a function of these domestic constraints, including loadshedding. Furthermore, the outlook for consumer spending has deteriorated notably. Higher expected inflation is part of the problem. While there has been some relief on additional electricity tariff increases and fuel costs for now, consumer inflation is expected to accelerate to an average of 5.5% to 6% next year from around 5% in 2015. The upward inflation trend is set to be driven by sustained rand weakness, as well as higher food prices. Accelerating inflation will eat into household disposable income.

Disposable income will also be adversely impacted by a higher prime lending rate. The South African Reserve Bank's repo rate hike of 25bps in July 2015 is expected to be followed by further increases. In particular, the central bank is mindful to counter a rise in inflation expectations. However, the weak state of the domestic economy suggests that any future rate rise(s) will be moderate. Other negatives for the consumer include a depressed employment outlook (including government) and higher tax rates.

The rand exchange rate continues to trend weaker against the US dollar. The most important currency risk stems from the large current account deficit, particularly in an environment of higher US interest rates.

Against this backdrop, the South African economy is unlikely to grow by much more than a meagre 1.5% in 2016.

CORPORATE GOVERNANCE AND SUSTAINABILITY

Remgro is fully committed to managing its business in a sustainable way and upholding the highest standards of ethics and corporate governance practices. The Board of Directors is ultimately accountable for the performance of the Company, appreciating that strategy, risk, performance and sustainability are inseparable.

Our governance framework is based on the principles contained in King III and we are satisfied that the Company has met the majority of the principles during the year under review. We further believe that the Board's current members possess the required collective skills, experience and diversity to carry out its responsibilities, to achieve the Group's objectives and create shareholder value over the long term.

FINANCIAL PERFORMANCE AND INVESTMENT ACTIVITIES

For the year to 30 June 2015 headline earnings amounted to R7 996 million compared to R6 635 million for the year to 30 June 2014, representing an increase of 20.5%, whereas headline earnings per share increased by 20.3% from 1 292.4 cents to 1 555.0 cents. The biggest contributor to this increase in headline earnings was RCL Foods whose contribution increased from a loss of R239 million in 2014 to a profit of R755 million in 2015.

Remgro's intrinsic net asset value per share increased by 17.5% from R245.96 at 30 June 2014 to R288.89 at 30 June 2015. The biggest contributors to this increase was RMBH/FirstRand and Mediclinic, whose share of intrinsic net asset value (before any potential CGT) increased by 28.3% and 25.3% respectively year on year from R29.7 billion to R38.1 billion and R29.3 billion to R36.7 billion. As at 30 June 2015, 19% of Remgro's intrinsic net asset value was represented by unlisted investments (2014: 22%).

The most significant investment made during the year under review was the acquisition of a 29.9% shareholding in Spire Healthcare during June 2015 for an amount of GBP431.7 million.

The intrinsic net asset value per share increased by 17.5%

In keeping with Remgro's strategy of owning assets via various platform investments and recognising Mediclinic as Remgro's main vehicle for its healthcare portfolio, Remgro concluded an agreement with Mediclinic whereby Mediclinic would acquire Remgro's interest in Spire, subject to it raising the appropriate funds. For this purpose Mediclinic raised R10 billion via a rights issue in August 2015. In addition to investing in a growing developed market, the Spire transaction provides Mediclinic with a geographically diversified earnings base.

DIRECTORATE

On 25 November 2014 the Remgro Board of directors appointed Mr J Malherbe, a current Remgro non-executive director, as co-deputy chairman with Dr E de la H Hertzog, who is the current deputy chairman.

The Board wishes to congratulate Mr Malherbe on his appointment.

Ms S E N de Bruyn Sebotsa has been appointed as an independent non-executive director of Remgro with effect from 16 March 2015. She has considerable experience in the areas of finance, business and the empowerment of women in South Africa.

The Board wishes to welcome Ms De Bruyn Sebotsa as a director to the Company.

ACKNOWLEDGEMENTS

We extend our sincere appreciation to all who contributed to the performance of the Group over the past year: the shareholders for their continued confidence; the managing directors and all colleagues in the various group companies for their co-operation and support; all other directors, officials and employees for their dedication; and all parties concerned for services rendered.



Johann Rupert
Chairman

Stellenbosch
17 September 2015