

CHIEF FINANCIAL OFFICER'S REPORT

Remgro's headline earnings on a comparable basis increased by 2.6%



NEVILLE WILLIAMS
CHIEF FINANCIAL OFFICER

INTRODUCTION

Due to Remgro being an investment holding company, traditional measurements of performance, like sales or gross profit, are not meaningful criteria for evaluating the Group's performance. However, management uses "headline earnings", "intrinsic net asset value" and "cash at the centre" to evaluate the performance of the Group on a continuous basis and hence these concepts are used throughout the Integrated Annual Report to provide shareholders with a better understanding of our results.

RESULTS

HEADLINE EARNINGS

For the year to 30 June 2016, headline earnings and headline earnings per share decreased by 26.4% from R7 996 million to R5 887 million and from 1 555.0 cents to 1 143.9 cents respectively, as presented in the table on page 26.

Included in headline earnings for the year under review are once-off transaction costs incurred with the Mediclinic rights issue and Al Noor Hospitals Group plc (Al Noor) transaction amounting to R788 million, of which R402 million is Remgro's own costs and R386 million is Remgro's share of Mediclinic's transaction costs ("once-off costs"), as well as a fair value adjustment of R730 million, relating to the increase in value of the bondholders' exchange option (accounted for as a derivative liability) of the bonds ("option remeasurement") that were issued during March 2016 to partially refinance the foreign bridge funding that was raised for the Al Noor transaction. The bonds are exchangeable into Mediclinic plc shares and/or cash and fair value adjustments on the option (reflecting *inter alia* the movement in the underlying Mediclinic plc share price) are expected to cause volatility in headline earnings during its five-year term. Excluding these items, headline earnings decreased by 7.4% from R7 996 million to R7 405 million, whereas headline earnings per share decreased by 7.5% from 1 555.0 cents to 1 438.9 cents.

It should furthermore be noted that headline earnings includes other once-off items, which cause comparability of the results to be challenging. These are:

- Additional finance cost incurred with the Mediclinic rights issue and Al Noor transaction that were accounted for the three months to 30 June 2016 amounting to R245 million, whilst the equity accounted earnings for Mediclinic was recognised only for the period until 31 March 2016, since the Group lags Mediclinic's reporting period by three months;
- Facilitation and underwriting fees of R99 million received from Mediclinic in the 2015 financial year;
- Transaction and funding costs relating to the Spire Healthcare Group plc (Spire) transaction amounting to R115 million (2015: R38 million); whereas the recoupment of R153 million is included in profit on the sale of Spire to Mediclinic, outside headline earnings;
- Positive impact on RCL Foods' results with the release of a R163 million provision raised for uncertain tax disputes, as well as a R119 million gain on the exercise of the Zam Chick and Zamhatch put options (Remgro's portion being R218 million);



- Positive impact on Mediclinic's profit in the comparative year due to Swiss prior year tax adjustments of R712 million (Remgro's portion being R300 million);
- Positive impact on RMI's profit in the comparative year with the release of a put option liability at Discovery of R415 million (Remgro's portion being R126 million); and
- PRIF distributions of R170 million in the comparative year due to first close versus R18 million in the year under review resulting from the second and third closes.

Excluding all the aforementioned items, Remgro's comparable headline earnings increased by 2.6% from R7 339 million to R7 529 million mainly due to better operating performances by its banking, insurance, healthcare and industrial platforms, offset by lower earnings from RCL Foods, as well as Grindrod.

COMMENTARY ON REPORTING PLATFORMS' PERFORMANCE

FOOD, LIQUOR AND HOME CARE

The contribution from food, liquor and home care to Remgro's headline earnings amounted to R1 618 million (2015: R1 531 million),

SALIENT FEATURES

representing an increase of 5.7%. RCL Foods' contribution to Remgro's headline earnings decreased by 12.8% to R658 million (2015: R755 million). During the year under review RCL Foods' results were positively impacted by the release of a R163 million provision raised for uncertain tax disputes as part of the Foodcorp acquisition, as well as a R119 million gain on the exercise of the Zam Chick and Zamhatch put options. Excluding these remeasurements, RCL Foods' contribution to Remgro's headline earnings would have decreased by 41.7% to R440 million. This decrease is mainly due to lower contributions from the Sugar and Chicken businesses. The Chicken business was impacted by a massive oversupply in the local market caused by local production and dumping, while the Sugar business remained under pressure due to the severe drought conditions. Unilever's contribution to Remgro's headline earnings increased by 39.3% to R461 million (2015: R331 million). This increase is mainly the result of revenue growth and margin improvement. Distell's contribution to headline earnings, which includes the investment in Capevin Holdings, amounted to R499 million (2015: R445 million). This increase is mainly the result of revenue growth and efficiency improvements across the business. Distell experienced strong performances from all product categories and also benefited from a weaker rand against the major currencies in which it trades.

	Year ended 30 June 2016	Year ended 30 June 2015	% change
Headline earnings (R million)	5 887	7 996	(26.4)
– per share (cents)	1 143.9	1 555.0	(26.4)
Headline earnings, excluding once-off costs and option remeasurement (R million)	7 405	7 996	(7.4)
– per share (cents)	1 438.9	1 555.0	(7.5)
Earnings (R million)	5 386	8 715	(38.2)
– per share (cents)	1 046.6	1 694.9	(38.3)
Dividends per share (cents)			
Ordinary	460.00	428.00	7.5
– Interim	185.00	169.00	9.5
– Final	275.00	259.00	6.2
Intrinsic net asset value per share (Rand)	306.44	288.89	6.1

CONTRIBUTION TO HEADLINE EARNINGS BY REPORTING PLATFORM

R million	Year ended 30 June 2016	% change	Year ended 30 June 2015
Food, liquor and home care	1 618	5.7	1 531
Banking	2 989	5.1	2 845
Healthcare	1 566	(9.7)	1 734
Insurance	888	(9.9)	986
Industrial	517	35.7	381
Infrastructure	6	(98.5)	392
Media and sport	(36)	(125.0)	(16)
Other investments	67	(20.2)	84
Central treasury			
– Finance income	125	12.6	111
– Finance costs	(1 602)	–	–
Other net corporate costs	(251)	(382.7)	(52)
Headline earnings	5 887	(26.4)	7 996
Once-off costs	788	–	–
Option remeasurement	730	–	–
Headline earnings, excluding once-off costs and option remeasurement	7 405	(7.4)	7 996



Refer to the composition of headline earnings on page 31 for further information.

BANKING

The headline earnings contribution from the banking division amounted to R2 989 million (2015: R2 845 million), representing an increase of 5.1%. FirstRand and RMBH reported headline earnings growth of 5.9% and 4.5% respectively. On a normalised basis, FirstRand and RMBH reported earnings growth of 7.4% and 7.0% respectively, mainly due to growth in both interest income and non-interest income from FNB, RMB and WesBank, partly offset by an increase in credit impairment charges, which reflect the deteriorating macro-economic environment.

HEALTHCARE

Mediclinic's contribution to Remgro's headline earnings amounted to R1 566 million (2015: R1 734 million). It should be noted that Mediclinic's results for the year under review include once-off transaction costs incurred with the Al Noor transaction of R891 million, while the comparative period included positive Swiss prior year tax adjustments of R712 million. Excluding these once-off items Mediclinic's contribution to Remgro's headline earnings would have increased by 36.1% from R1 434 million to R1 952 million. This increase is mainly due to solid performances by all three operating platforms, as well as the positive effect of the weaker rand.

INSURANCE

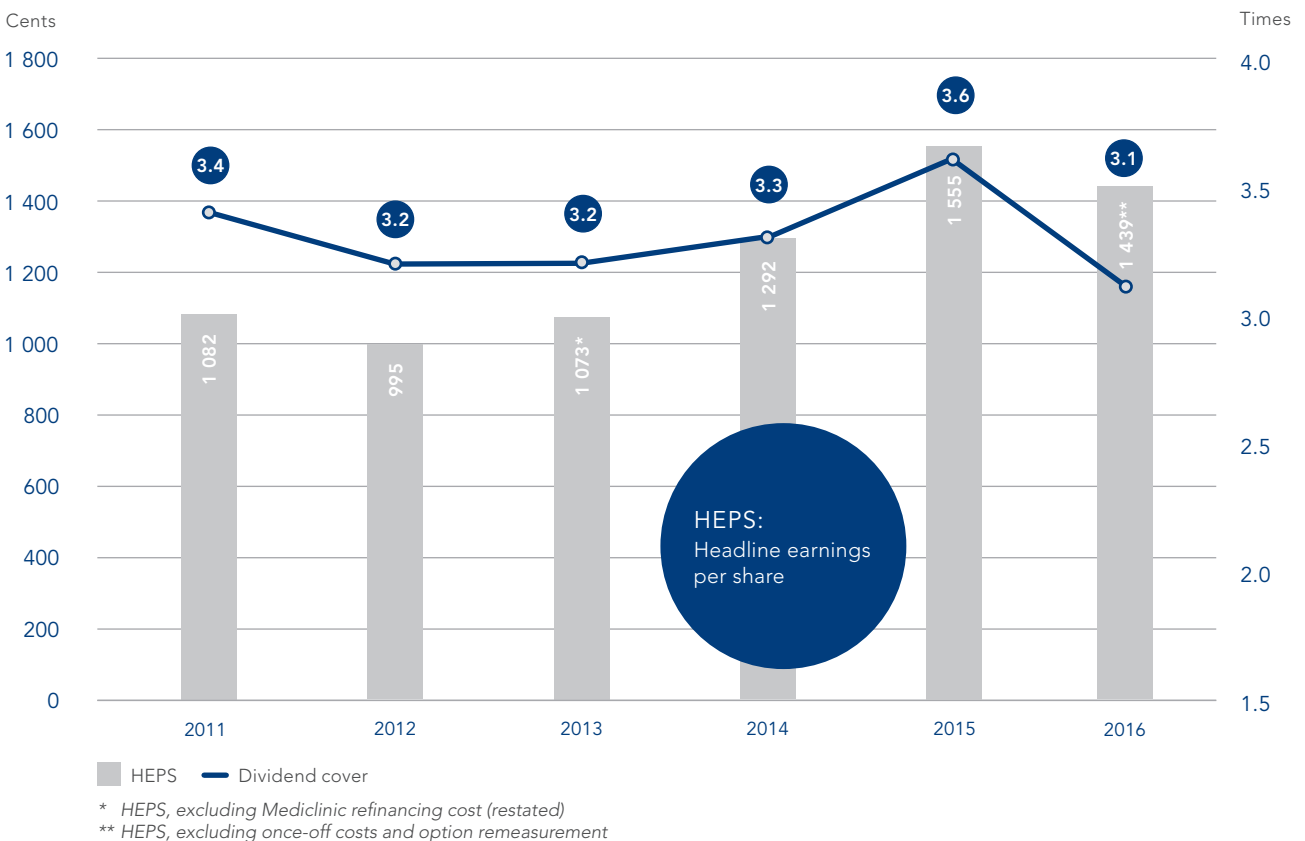
RMI Holdings' contribution to headline earnings decreased by 9.9% to R888 million (2015: R986 million). This decrease is mainly the result of a once-off profit in the comparative period, with the release of a put option liability at Discovery, which is excluded from RMI Holdings' normalised earnings. On a

normalised basis, RMI Holdings reported an increase of 5.9% in earnings, with Discovery and OUTsurance achieving good earnings growth of 6.6% and 42.7% respectively, offset by lower earnings from MMI Holdings (lower by 15.8%). OUTsurance's growth can be attributed to the significant improvement in the contribution from the Youi group. The comparative year's results were negatively impacted by numerous weather-related catastrophes in Australia. MMI Holdings' decrease is mainly due to lower underwriting profits, as well as lower asset-based fees.

INDUSTRIAL

Total's contribution to Remgro's headline earnings amounted to R291 million (2015: R133 million). Included in the contribution to headline earnings is unfavourable stock revaluations amounting to R88 million (2015: R286 million). These revaluations are the result of the volatility in the Brent Crude price and the rand exchange rate. Excluding these revaluations, the contribution decreased by 9.5% from R419 million to R379 million mainly due to an excellent operational performance by NATREF in the comparative period, which the refinery was unable to repeat during the current reporting period. Remgro's share of the results of KTH amounted to a loss of R229 million (2015: loss of R108 million). KTH's results were negatively impacted by unfavourable fair value adjustments relating to its investments in Exxaro Resources Limited and MMI Holdings Limited preference shares. Air Products' and Wispeco's contribution to headline earnings amounted to R275 million and R144 million respectively (2015: R222 million and R104 million), while PGSI contributed R36 million to Remgro's headline earnings (2015: R30 million).

DIVIDEND COVER



INFRASTRUCTURE

Grindrod's contribution to Remgro's headline earnings amounted to a loss of R45 million (2015: a profit of R135 million). This decrease is mainly the result of weak commodity markets and significantly lower dry-bulk shipping rates. For the year under review the CIV group contributed R64 million to headline earnings (2015: R51 million). SEACOM reported a headline loss of R113 million for the year under review (2015: headline earnings of R96 million), with Remgro's share of this loss amounting to R33 million (2015: profit of R24 million). This decrease is mainly due to a higher depreciation charge on certain cable assets resulting from a change in the estimated useful life of these assets. During the year under review the Pembani Remgro Infrastructure Fund (PRIF) had its second and third closes, which resulted in Remgro receiving an income distribution of R18 million (2015: R170 million in respect of the first close), mainly due to foreign exchange gains realised in the PRIF structure.

MEDIA AND SPORT

Media and sport consist of the interests in eMedia and various sport interests, including interests in rugby franchises, as well as the Stellenbosch Academy of Sport. eMedia's contribution to Remgro's headline earnings decreased by 59.4% to R28 million (2015: R69 million), mainly due to continued pressure on advertising revenue as a result of a sharp drop in market share during the previous financial year, leading to a considerable investment in local programming to recover market share, as well as continued investment into the multi-channel business. The sport interests' contribution to headline earnings amounted to a loss of R64 million (2015: loss of R85 million).

OTHER INVESTMENTS

The contribution from other investments to headline earnings amounted to R67 million (2015: R84 million), of which Business Partners' contribution was R48 million (2015: R47 million).

CENTRAL TREASURY AND OTHER NET CORPORATE COSTS

Finance income amounted to R125 million (2015: R111 million). This increase is mainly the result of higher average cash balances, as well as higher interest rates than in the comparative period. Finance costs mainly consist of funding costs amounting to R466 million and once-off transaction costs amounting to R402 million, which relate to the Mediclinic rights issue and Al Noor transaction, as well as a fair value adjustment of R730 million, relating to the increase in the value of the exchange option of the exchangeable bonds. Other net corporate costs amounted to R251 million (2015: R52 million). The year under review includes transaction and funding costs amounting to R115 million (2015: R38 million) relating to Remgro's acquisition of Spire. Remgro recouped this amount from Mediclinic as part of the Spire disposal consideration, which resulted in a profit on disposal of investment of R153 million, excluded from headline earnings. The comparative period also include a net after-tax facilitation and underwriting fee of R99 million received from Mediclinic on the Spire transaction and resultant rights issue.

EARNINGS

Earnings decreased by 38.2% to R5 386 million (2015: R8 715 million). This decrease is mainly the result of the

once-off transaction costs incurred with the Mediclinic rights issue and Al Noor transaction (R788 million), the fair value adjustment relating to the increase in value of the exchange option of the exchangeable bonds (R730 million), the impairment of the investment in Grindrod (R1 861 million) and Remgro's portion of the impairments in Grindrod's Rail and Shipping divisions (R577 million), as well as Remgro's portion of an impairment in RCL Foods' Milling business (R439 million). The decrease is partly offset by a profit of R2 262 million realised on the dilution of Remgro's interest in Mediclinic as part of the Al Noor transaction (2015: profit of R958 million due to a book-build exercise).

CASH AT THE CENTRE AND FOREIGN EXCHANGE RATES

On 30 June 2016 Remgro's cash at the centre amounted to R3 778 million (2015: R4 019 million), of which 55% was invested offshore (2015: 36%). The cash is held in different currencies of which approximately 46% was held in SA rand, 40% in USA dollar and 14% in British pound.

Remgro's offshore cash is held in USA dollar and British pound. During the year £238 million was transferred from local cash to the offshore cash at a SA rand/GBP exchange rate of R21.59. Foreign exchange profits amounting to R213 million (2015: R120 million) were accounted for during the year under review, mainly as a result of the weakening of the SA rand against the USA dollar from R12.14 = \$1.00 at 30 June 2015, to R14.70 = \$1.00 at 30 June 2016. For accounting purposes these exchange movements are accounted for directly in equity.

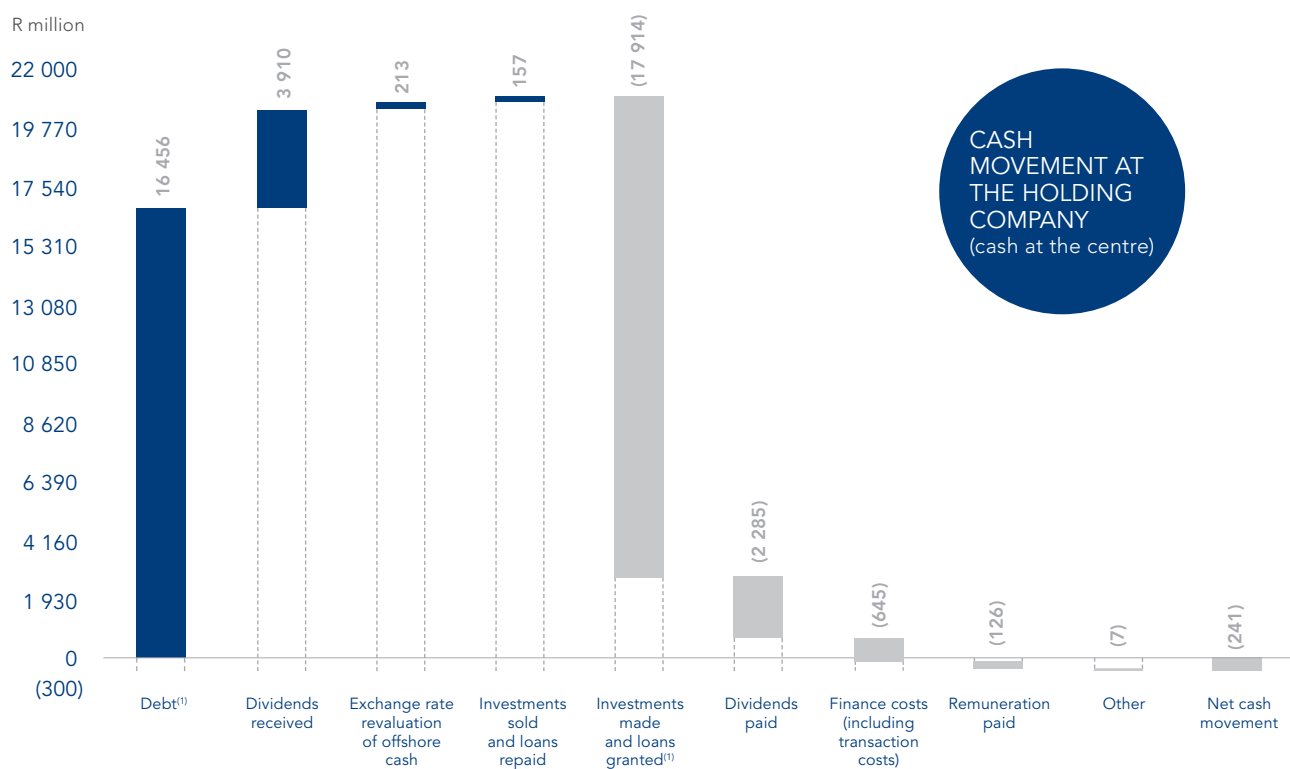
As at 30 June 2016 the majority of Remgro's remaining offshore cash was already committed towards the expansion of existing offshore investments (USA dollar) and to service foreign debt (British pound).

EXTERNAL FUNDING

As part of the Spire acquisition, Remgro obtained bridge financing of R7.5 billion from Rand Merchant Bank in order to partly fund the transaction. The term of the facility was six months and the full amount of the facility was drawn on 13 July 2015 when payment of the Spire investment had to be effected. The bridge facility bore interest at 3-month Jibar plus 90 basis points margin. On 26 August 2015, Remgro repaid R4.0 billion of the bridge facility after Mediclinic International Limited (Mediclinic) successfully completed its rights issue and acquired Remgro's interest in Spire for an amount of R8.6 billion, which was equal to the purchase price, transaction and funding costs. On 13 January 2016 Remgro (through its wholly owned subsidiary, Remgro Healthcare Holdings Proprietary Limited (Remgro Healthcare)) replaced the bridge facility by issuing fixed rate cumulative redeemable preference shares. These preference shares have a tenure of four years and the dividend rate is fixed at 7.7%, payable semi-annually.

To fund the Al Noor transaction, Remgro obtained local bridge financing of £200.0 million (or R4.3 billion) from Rand Merchant Bank, as well as foreign bridge financing of £400.0 million from Morgan Stanley (£300.0 million) and Rand Merchant Bank (£100.0 million). The terms of these facilities are eighteen months and the full amount of the facilities was drawn on 22 February 2016 when payment of the Al Noor investment had to be effected. The local bridge facility bears interest at

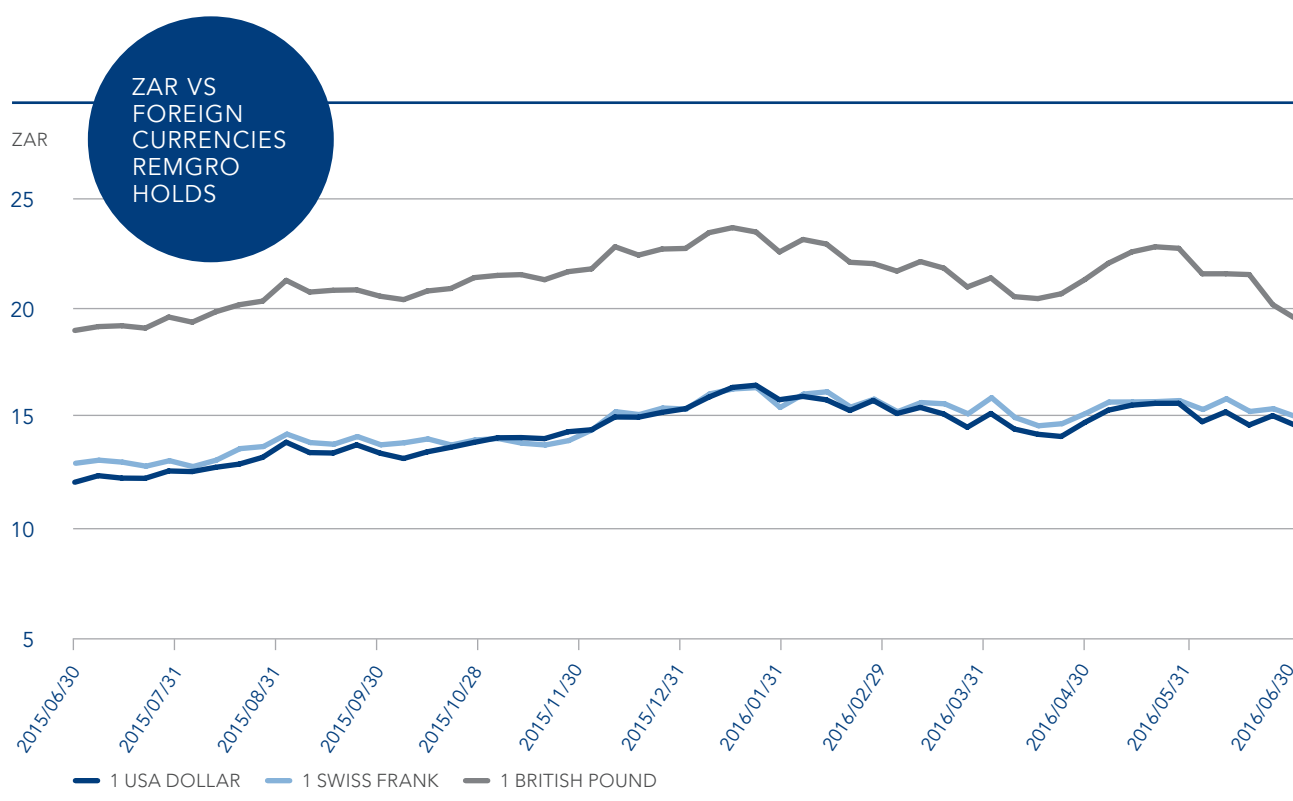
	30 June 2016			30 June 2015 R million
	Currency value million	Exchange rate	R million	
USA dollar	102.7	14.6994	1 509	1 407
British pound	26.9	19.5756	528	–
Swiss franc	0.3	15.0750	4	4
SA rand			1 737	2 608
			3 778	4 019



⁽¹⁾ The acquisition and disposal of Spire to Mediclinic are excluded from the graph as it was cash neutral.

Closing exchange rates	30 June 2016	30 June 2015	Movement %
USD/ZAR	14.6994	12.1431	(21.1)
EUR/ZAR	16.3107	13.5242	(20.6)
GBP/ZAR	19.5756	19.0563	(2.7)
CHF/ZAR	15.0750	12.9895	(16.1)

Average exchange rates	Year ended 30 June 2016	Year ended 30 June 2015	Movement %
USD/ZAR	14.4940	11.4436	(26.7)
EUR/ZAR	16.0853	13.7119	(17.3)
GBP/ZAR	21.4340	17.9959	(19.1)
CHF/ZAR	14.7804	12.1326	(21.8)



3-month Jibar plus 140 basis points margin and the foreign bridge facility bears interest at 3-month Libor (subject to a floor of 1.0%) plus 140 basis points margin. The interest rates for both the local and foreign bridge facilities increase by 25 basis points margin after six months and by a further 50 basis points margin after another six months. On 16 March 2016 Remgro (through its wholly owned subsidiary, Remgro Healthcare) replaced the local bridge facility with newly issued fixed rate cumulative redeemable preference shares amounting to R4.4 billion. The preference shares have a tenure of five years and a fixed dividend rate of 8.3%, payable semi-annually. On 22 March 2016 Remgro (through its wholly owned subsidiary, Remgro Jersey GBP Limited) replaced £350.0 million of the foreign bridge facility by issuing exchangeable bonds with a tenure of five years and a fixed coupon rate of 2.625%, payable semi-annually. The exchangeable bonds are exchangeable into approximately 30.9 million Mediclinic International plc (Mediclinic plc) shares and/or cash, and the exchange price for the bonds is £11.3086 per Mediclinic plc share, representing a 30% premium above the weighted average price on the London Stock Exchange (LSE) between launch and pricing of the bond offering. Upon exchange or redemption of the bonds, Remgro will have the discretionary right to deliver an amount in cash or shares or a combination of cash and shares. The bonds were included for trading on the open market (Freiverkehr) segment of the Frankfurt Stock Exchange on 23 March 2016.

DIVIDENDS

The final dividend per share was determined at 275 cents (2015: 259 cents). Total ordinary dividends per share in respect of the year to 30 June 2016 therefore amounted to 460 cents (2015: 428 cents).

The dividend is covered 2.5 times by headline earnings against 3.6 times the previous year.

INTRINSIC NET ASSET VALUE

Remgro's intrinsic net asset value per share at 30 June 2016 was R306.44 compared to R288.89 on 30 June 2015. Refer to the Chief Executive Officer's Report on page 20 for a detailed discussion regarding Remgro's intrinsic net asset value and its relative performance with certain selected JSE indices.

ACCOUNTING POLICIES

The annual financial statements have been prepared in accordance with International Financial Reporting Standards. The accounting policies have been consistently applied to both years presented.

RISK MANAGEMENT

The Company has implemented a comprehensive Risk Management Policy that is based on the principles of the international COSO (Committee of Sponsoring Organisations of the Treadway Commission) Enterprise Risk Management – Integrated Framework and complies with the recommendations of King III. A comprehensive risk management structure furthermore ensures the effective and efficient management of risk within the Group.

Remgro's risk management process is summarised in the Risk Management Report on page 65, as well as in note 31 to the comprehensive annual financial statements on page 70, that is published on the Company's website at www.remgro.com.

Neville Williams
Chief Financial Officer

Stellenbosch
20 September 2016

COMPOSITION OF HEADLINE EARNINGS

R million	Year ended 30 June 2016	% change	Year ended 30 June 2015
Food, liquor and home care			
Unilever	461	39.3	331
Distell ⁽¹⁾	499	12.1	445
RCL Foods	658	(12.8)	755
Banking			
RMBH	2 112	5.3	2 005
FirstRand	877	4.4	840
Healthcare			
Mediclinic	1 566	(9.7)	1 734
Insurance			
RMI Holdings	888	(9.9)	986
Industrial			
Air Products	275	23.9	222
KTH	(229)	(112.0)	(108)
Total	291	118.8	133
PGSI	36	20.0	30
Wispeco	144	38.5	104
Infrastructure			
Grindrod	(45)	(133.3)	135
CIV group	64	25.5	51
SEACOM	(33)	(237.5)	24
Other infrastructure interests	20	(89.0)	182
Media and sport			
eMedia	28	(59.4)	69
Other media and sport interests	(64)	24.7	(85)
Other investments	67	(20.2)	84
Central treasury			
Finance income	125	12.6	111
Finance costs ⁽²⁾	(1 602)	–	–
Other net corporate costs	(251)	(382.7)	(52)
Headline earnings	5 887	(26.4)	7 996
Weighted number of shares (million)	514.6	0.1	514.2
Headline earnings per share (cents)	1 143.9	(26.4)	1 555.0

⁽¹⁾ Includes the investment in Capevin Holdings Limited.

⁽²⁾ Finance costs include the once-off costs (R402 million) and the option remeasurement (R730 million).