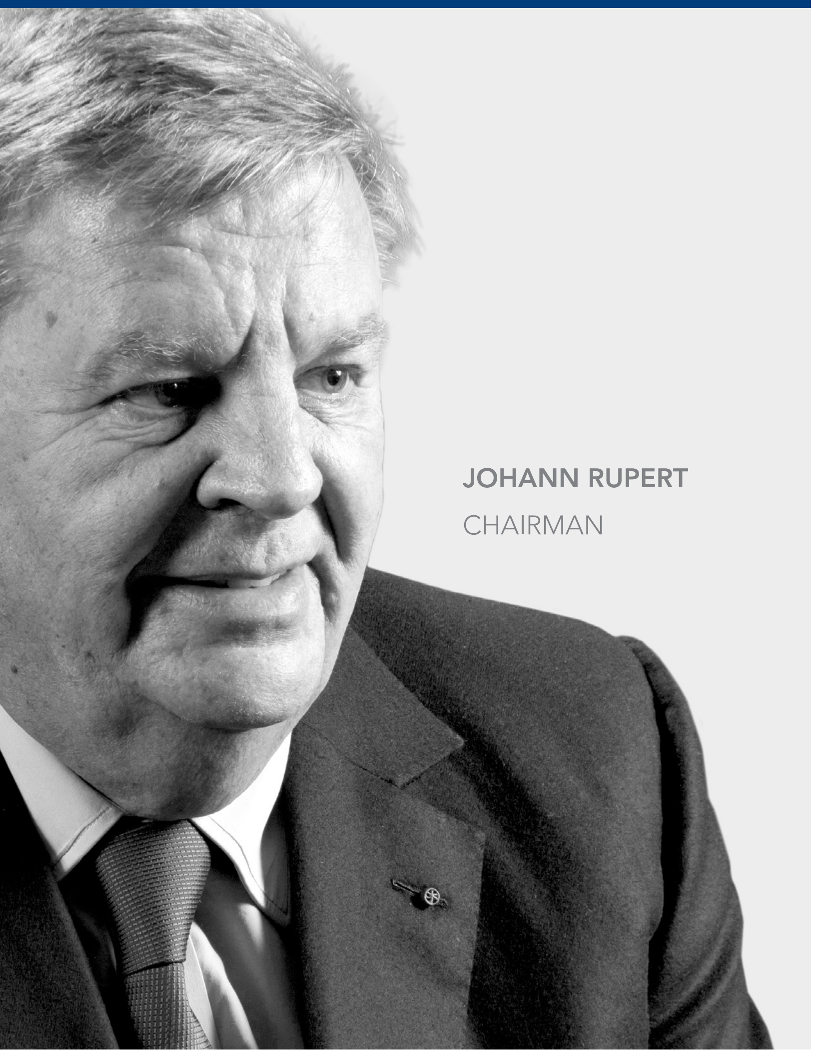
CHAIRMAN'S REPORT

Remgro manages its business sustainably and upholds the highest standards of ethics and corporate governance practices



JOHANN RUPERT
CHAIRMAN

ECONOMIC OVERVIEW

The South African economy had a worse than expected start to 2016 with GDP weakening further in the first quarter of 2016. Seasonally adjusted, GDP declined by 0.6% year-on-year (y-o-y). The economy was still growing at 2.3% y-o-y in the first quarter of 2015, so the loss of growth momentum has been dramatic. Measured from the production side, the weakness has been focused in the primary (mining and agriculture) sectors, while the growth in manufacturing output has also been subpar for some time. The expenditure data shows that the growth in real fixed investment outlays fell away sharply at the start of the year. To a lesser extent, this is also true for consumer spending growth.

GDP growth rebounded in the second quarter to 0.7% y-o-y, but this still implies zero growth in the first half of 2016. Looking forward, both global and domestic dynamics suggest that GDP growth will remain poor for the rest of 2016. On the global front, lingering softness in the Chinese economy and the uncertainty created by the UK's decision to leave the EU (Brexit), imply that South Africa is unlikely to receive much growth support from the rest of the world. This environment is not conducive to strong export growth. However, exports were boosted by increased shipments of precious metals and vehicles in the second quarter. Especially vehicle exports are expected to remain strong during the remainder of 2016. Domestically, an expected renewed inflation acceleration in the second half of 2016, weak employment growth and low consumer confidence are expected to ensure consumer spending remains under pressure. On a more positive note, consumers received a reprieve in early August when the petrol price declined by almost R1/litre with a modest further decrease in September. Depressed business confidence through the third quarter of 2016 implies that private fixed investment is unlikely to recover over the short term.

These factors suggest that GDP is likely to be flat and may even experience an outright decline in 2016. However, the better than expected second quarter GDP data has put some mild upside risk to the GDP outlook. In particular, the likelihood of a technical recession (two consecutive quarters of GDP decline) in the second half of the year has been reduced. Among other impacts, the weak GDP outlook is likely to have fiscal implications, i.e. the budget deficit is projected to be higher than the Treasury expected in February.

Despite the adverse growth environment and Brexit shock, the rand exchange rate was initially resilient in the third quarter (July and August) as the US Federal Reserve was expected to postpone any further US policy interest rate hike(s). On average, the rand was also stronger than expected against the USA dollar in the second quarter of 2016. This can partly be explained by the decision by all the major credit rating agencies to keep South Africa's ratings unchanged. More recently, Fitch announced a realignment of credit ratings with the result that South Africa's local currency rating – the rating for debt issued in local currency – was cut to BBB-. As with the foreign currency rating, this implies that the rating is only one notch above speculative grade. The local currency rating is important as it largely determines whether South African bonds remain part of key global benchmarks, including the World Government Bond Index (WGBI). Despite this announcement, the rand strengthened further towards the R13/$ level in early August. Towards the end of August, renewed uncertainty about the future of the Minister of Finance erased the earlier gains in the rand.

The inflation outlook has improved somewhat as recent better than expected food price and overall CPI trends are expected to offset a higher assumption for the international oil price through 2017. Headline CPI is projected to average 6.4% in 2016, slowing towards 6% in 2017.

The expectation that inflation should moderate in 2017 and the subdued growth outlook suggest that the South African Reserve Bank (SARB) may continue to keep the repo policy interest rate at its current level of 7% in the foreseeable future. However, the July MPC statement made it clear that the SARB is not yet convinced that we have reached the end of interest rate increases. The MPC argued that the decision to keep the interest rate on hold in July should be seen as a delay in further monetary policy tightening as opposed to the end of rate hikes.

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

Remgro's intrinsic net asset value per share increased by 6.1% from R288.89 at 30 June 2015 to R306.44 at 30 June 2016. The biggest contributor to this increase was Mediclinic, whose share of intrinsic net asset value (before any potential CGT) increased by 89.9% year on year from R36.7 billion to R69.7 billion. As at 30 June 2016, 17% of Remgro's intrinsic net asset value was represented by unlisted investments (2015: 18%).

The most significant investments made during the year under review were the conclusion of Remgro's facilitation of the acquisition of Spire Healthcare Group plc (Spire) by Mediclinic International Limited (Mediclinic) and subsequent participation in a Mediclinic rights issue, as well as Remgro's subscription of shares in Al Noor Hospitals Group plc (Al Noor) as part of the combination of Mediclinic and Al Noor. In order to fund these transactions Remgro obtained bridge financing of R7.8 billion in South Africa and £400.0 million abroad. The majority of the bridge financing was replaced by the issue of fixed rate cumulative redeemable preference shares amounting to R7.9 billion and the issue of exchangeable bonds amounting to £350.0 million. The bonds are exchangeable into Mediclinic International plc shares and/or cash.

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. This decrease is mainly due to the once-off transaction costs incurred with the Mediclinic rights issue and Al Noor transaction amounting to R788 million, as well as a fair value adjustment of R730 million, relating to the increase in value of the exchange option (accounted for as a derivative liability) of the exchangeable bond. 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.

DIRECTORATE

Mr Neville Williams was appointed as Chief Financial Officer on 1 April 2016, replacing Mr Leon Crouse who retired in March 2016.

The Board wishes to welcome Mr Williams 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 share-holders 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.

Johann Rupert
Chairman

Stellenbosch
20 September 2016