REMGRO IS FULLY COMMITTED to managing its business in a sustainable way and upholding THE HIGHEST STANDARDS OF ETHICS AND CORPORATE GOVERNANCE PRACTICES

JOHANN RUPERT
CHAIRMAN

ECONOMIC OVERVIEW

The global economy is strengthening with a broad-based upturn in GDP growth momentum. At the same time, global inflation remains contained. This is a positive combination for emerging market economies, including South Africa, as it suggests that developed country central banks will keep policy interest rates at low levels in the near future. At the same time, improved global demand conditions and constrained supply drove the rise in major commodity prices so far in 2017.

As has been the case for the last number of years, domestic constraints are preventing South Africa from fully benefiting from the improved global economic environment. After two consecutive quarters of GDP decline, South Africa exited a technical recession in the second quarter of 2017 with GDP growing at a faster than expected rate of 2.5% q-o-q (seasonally adjusted and annualised). The second quarter figure represented a notable recovery from the (upwardly) revised GDP decline of 0.6% q-o-q during the first quarter. Despite the improved quarterly GDP profile, the annual (seasonally adjusted) GDP growth rate moderated to 0.5% y-o-y in the second quarter, down from the 0.7% recorded in the first quarter. The second quarter GDP recovery was driven by the secondary and tertiary sectors. The former expanded by 1.9% q-o-q after a large contraction of 3.3% during the first quarter of 2017.

A couple of flare-ups aside, the rand exchange rate absorbed the cabinet reshuffle and credit rating downgrades quite well in the second quarter. Indeed, at R13.22/$, the currency averaged more or less a similar level as was the case in the first quarter of 2017. The rand has remained resilient in the third quarter. While it is always a challenge to single out specific currency drivers, a number of factors may help to explain the rand's resilience. In general, it is probably fair to say that the supportive global conditions trumped domestic concerns and that this largely explains the rand's robust recent performance.

The rand exchange rate should continue to be supported by the global environment. Developed country central banks are likely to move very slowly in the process of monetary policy normalisation. This will continue to provide some scope for capital inflows to emerging markets, albeit most likely not to the same extent as experienced in the first half of 2017. The greater concern is the potential for domestic issues to drive the currency weaker. The release of the Medium-Term Budget Policy Statement on 25 October and the ANC's December elective conference are important events that may shape the currency's fortunes towards the end of the year.

After reaching a peak of 6.7% y-o-y in December 2016, consumer inflation moderated to 4.6% in July 2017. The key driver of the inflation easing was the food component. After rising to 12% y-o-y in December 2016, the rate of increase for food prices eased, reaching levels just below 7% in July. The resilient rand implies less pressure on the exchange rate sensitive components of the CPI, including transport, clothing and textiles, as well as durable goods such as electronic appliances and new vehicles. Combined with the overall favourable food price dynamics, the rand is the major reason why the inflation outlook has improved.

Against the overwhelming financial market consensus for an unchanged repo rate, the Monetary Policy Committee (MPC) of the South African Reserve Bank (SARB) reduced the policy interest rate by 25 bps to 6.75% (prime rate down to 10.25%) on 20 July. The statement that accompanied the decision revealed that four MPC members voted for an interest rate reduction with two preferring to keep the rate on hold. This marks a significant shift from the previous (May) meeting when only one member opted for a cut.

The financial markets are pricing in further interest rate cuts totalling 75 bps over the next 12 to 18 months. As a result of the fiscal and political risks, the likelihood of a further credit rating downgrade in the next 12 months remains high. Against this backdrop, and despite the leeway provided by low global interest rates, there does not seem to be much scope for further domestic interest rate relief.

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

During October 2016 Remgro completed a rights issue whereby 48 110 637 new ordinary shares and 3 550 635 new B ordinary shares were issued at a subscription price of R192.50 per share for a total consideration of R9 944.8 million. The rationale of the rights issue was to provide the Company with cash resources and flexibility to capitalise on attractive investment opportunities and continue to support and facilitate the growth ambitions of its portfolio companies. Further information regarding these opportunities will be made public at an appropriate time if any of them materialise. Any surplus cash not utilised for strategic opportunities may also be used to repay Remgro's existing debt to ensure an efficient and robust statement of financial position with sufficient flexibility for future growth opportunities.

For the year to 30 June 2017, headline earnings increased by 40.0% from R5 874 million to R8 221 million, while headline earnings per share (HEPS) increased by 32.7% from 1 119.6 cents to 1 485.5 cents. The difference in the increase between headline earnings and HEPS is attributed to the impact of the rights issue.

Included in headline earnings for the comparative year are once-off transaction costs incurred with the Mediclinic International Limited (Mediclinic) rights issue and Al Noor Hospitals Group plc (Al Noor) transaction amounting to R788 million, as well as a negative 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 exchangeable bonds. The year under review includes a positive fair value adjustment of R687 million. Excluding these items, headline earnings increased by 1.9% from R7 392 million to R7 534 million, while HEPS decreased by 3.4% from 1 409.0 cents to 1 361.3 cents.

Remgro's intrinsic net asset value per share decreased by 17.9% from R306.44 at 30 June 2016 to R251.48 at 30 June 2017. The biggest contributor to this decrease was Mediclinic, whose share of intrinsic net asset value (before any potential CGT) decreased by 40.4% year on year from R69.7 billion to R41.6 billion, as well as the dilutive effect of the rights issue. As at 30 June 2017, 22% of Remgro's intrinsic net asset value was represented by unlisted investments (2016: 17%).

During June 2017 it was announced that Distell Group Limited (Distell) will restructure its ownership structure into a new listed entity. Remgro will retain its economic interest of 31.8%, but will, in addition, receive unlisted B shares, which will in aggregate give Remgro voting rights of 56.0%. The effective date of the transaction, which is still subject to a number of conditions precedent, is expected to be during the second half of the 2018 financial year.

DIRECTORATE

Mrs Mariza Lubbe has been appointed by the Board as executive director on 20 September 2016 and her appointment has been ratified by the Board on 1 December 2016. Following Mrs Lubbe's appointment as a director, she resigned as Remgro's Company Secretary. Ms Danielle Heynes has been appointed as Company Secretary in her place with effect from the close of business on 20 September 2016.

Mr Herman Wessels retired as an independent non-executive director on 1 December 2016.

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
20 September 2017