CHAIRMAN'S REPORT

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JOHANN RUPERT
CHAIRMAN

INTRODUCTION

In November 2008, almost 10 years ago, Remgro unbundled its investment in British American Tobacco (BAT) to its shareholders as a dividend *in specie*. Since then, Remgro's investment portfolio has continued to adapt and evolve.

During the last decade Remgro has demonstrated its ability to target strategic investments and divestments. This includes, amongst other investment activities, the merger with VenFin, adding media and technology interest to the Group's investments; participation in the FirstRand/RMH restructuring process, resulting in the listing of RMI Holdings; unbundling of mining interests to shareholders and supporting Mediclinic's expansion into new geographies.

Remgro's Internal Rate of Return from 28 October 2008 to 30 June 2018, assuming that dividends have been reinvested in Remgro shares, is 16.2% compounded per annum. The Remgro Group remains focused on investing for long-term growth. We are confident that the Company's assets are well positioned, with strong underlying cash flows, in this challenging economic environment.

FINANCIAL PERFORMANCE AND INVESTMENT ACTIVITIES

On 11 May 2018 the competition authorities approved the restructuring of Distell Group Limited's ownership structure. Remgro retained its economic interest of 31.8% in Distell Group Holdings Limited (Distell), but, in addition, received unlisted B shares, which in aggregate gives Remgro voting rights of 56.0% in Distell. Since Remgro holds the majority of voting rights, the investment in Distell is being consolidated at 31.8% with effect from 11 May 2018.

The competition authorities approved Unilever South Africa Holdings Proprietary Limited's (Unilever) acquisition of Remgro's 25.75% shareholding in Unilever in exchange for Unilever's Spreads business in Southern Africa, as well as a cash consideration of R4 900 million, representing a total transaction value of R11 900 million. This transaction valued the Unilever Spreads business at R7 000 million. The effective date of the transaction was 2 July 2018.

For the year to 30 June 2018, headline earnings increased by 4.3% from R8 221 million to R8 573 million, while headline earnings per share (HEPS) increased by 1.8% from 1 485.5 cents to 1 512.6 cents. The difference in the increase between headline earnings and HEPS is attributed to the impact of the rights issue during the comparative year.

Included in headline earnings for the year under review is a positive fair value adjustment amounting to R261 million (2017: R687 million), relating to the decrease in value of the bondholders' exchange option of the exchangeable bonds (option remeasurement). Excluding the option remeasurement, headline earnings increased by 10.3% from R7 534 million to R8 312 million, while HEPS increased by 7.7% from 1 361.3 cents to 1 466.5 cents.

Remgro's intrinsic net asset value per share increased by 2.2% from R251.48 at 30 June 2017 to R256.97 at 30 June 2018. The closing share price at 30 June 2018 was R204.29 (30 June 2017: R213.46), representing a discount of 20.5% (30 June 2017: 15.1%) to the intrinsic net asset value. As at 30 June 2018, 21% of Remgro's intrinsic net asset value was represented by unlisted investments (2017: 22%).

ECONOMIC COMMENTARY AND OUTLOOK

After the initial euphoria that greeted the rise of Cyril Ramaphosa to the highest office in the land, the second and third quarters of 2018 brought a stark reality check. The global environment suddenly deteriorated with asset prices in countries with external deficits and idiosyncratic risks, including South Africa, hardest hit. Domestically, a number of factors have pushed back the timing of a sustained upturn in business confidence. These include the shock GDP contractions in the first and second quarters of 2018. This meant that the South African economy suffered the first technical recession since the 2008/9 global financial crisis. Furthermore, a more realistic appraisal of the constraints faced by the Ramaphosa presidency and continued policy uncertainty may also be holding back confidence. Some overly alarmist commentary on the land debate, especially in the US press, may have added to the more negative international sentiment towards South Africa of late.

Indications are that global GDP growth remained firm in the first half of 2018. However, unlike in 2017 when the growth upturn was synchronised, a greater divergence has crept in with the US outperforming as the growth momentum in the Eurozone (EZ) slows. The US outperformance has resulted in a further widening in the gap between US and EZ short- and long-term interest rates. This helps to explain US dollar strength since early in the second quarter of 2018. Although the global economy remains on a firm footing, risks are rising. This largely stems from increased global trade tensions, mainly involving the US and China. Along with a tightening in global liquidity conditions as more countries raise policy interest rates, this should result in weaker global growth in future.

Against this backdrop, the short-term real GDP growth outlook for South Africa has been downscaled once again with growth now expected at around 1% for 2018 versus significantly more optimistic projections at the start of the year. Following a materially stronger move in the first quarter, the rand exchange rate was under heavy selling pressure during the second quarter and again since August. The renewed rand weakness was mainly driven by a much stronger US dollar, but weak domestic data releases and continued uncertainty on key policy issues (Land Reform and Mining Charter) may also have contributed. The most recent bout of rand weakness was sparked by contagion effects from the unfolding financial crises in Turkey and Argentina.

The weaker rand and the sustained high oil price are likely to add some pressure to the inflation outlook. However, subdued grain prices should help to keep food prices in check. Nevertheless, inflation risks are on the upside, implying that the next interest rate move by the South African Reserve Bank (SARB) is likely to be higher. The general consensus is for an unchanged repo rate through at least 2018, as the SARB tries to strike a balance between weak GDP growth and a rising inflation profile. However, there is a growing likelihood that the SARB could be forced into increasing the policy interest rate before the end of the year.

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 the King IV Report on Corporate Governance for South Africa (2016) and we are satisfied that the Company has applied those 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.

CHANGES TO THE DIRECTORATE

Mr W E Bührmann has retired as an executive director from the Board of Remgro on 30 April 2018. He has reached his normal retirement age of 63 for executive directors.

The Board wishes to thank him for his valuable contribution over many years.

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 investee 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
19 September 2018