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CHIEF EXECUTIVE
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CHIEF EXECUTIVE OFFICER'S REPORT

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INTRODUCTION

Remgro's intrinsic net asset value is the most appropriate indicator of the value added for our shareholders. For the year under review the intrinsic net asset value per share has decreased by 9.3% from R256.97 at 30 June 2018 to R233.03 at 30 June 2019. Over the same period the JSE all share index has increased by 1.0%, while Remgro's share price decreased by 8.0%. Refer to the tables on page 27 where the relative performances are set out in more detail.



Whilst, for various reasons, the index comparison is not always applicable over single accounting periods, the long-term trends are used as part of Remgro's risk and opportunity process to retain focus on our commitment to stakeholders as stated in our investment philosophy.

This report aims to provide shareholders with a better understanding of the methodology behind the calculation of the intrinsic net asset value, especially relating to the valuation of our unlisted investments. A summary of our investing activities during the year under review is also provided.

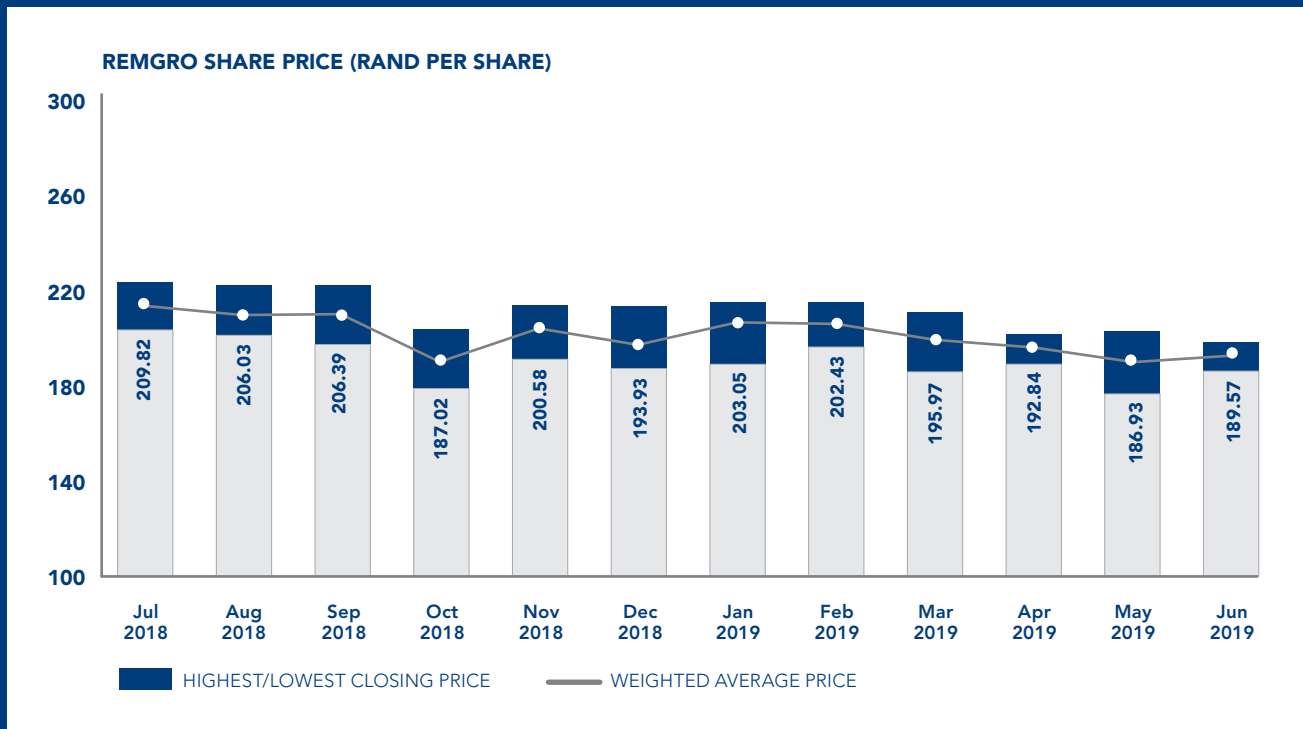
The intrinsic net asset value is also presented as part of the Group's segmental information in the audited Annual Financial Statements.

INTRINSIC NET ASSET VALUE

The intrinsic net asset value of the Group includes valuations of all investments, incorporating subsidiaries, associates and joint ventures, either at listed market value, or in the case of unlisted investments, other inputs for the assets that are not based on observable market data.

Guidance in completing the valuations is obtained from *IFRS 13: Fair Value Measurement*, where *Fair Value* is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that a hypothetical transaction to sell an asset takes place in the principal market, or in its absence, the most advantageous market for the asset.

The values derived from the valuation exercise performed at measurement date fall within the *IFRS 13* framework, which requires that the equity beta, capital structure and cost of debt be determined based on information obtained for similar assets or market participants, after certain adjustments. This impacts on the weighted average cost of capital (WACC), where target or actual inputs are replaced with inputs derived from considering the position of hypothetical market participants.



Capital allocation is our most important function. We need to be disciplined in our allocation of capital and, if we are wrong, we should act quickly and decisively.

RELATIVE PERFORMANCE OF INTRINSIC NET ASSET VALUE AND REMGRO INTERNAL RATE OF RETURN (IRR)

The tables below compare the relative performance of the Remgro intrinsic net asset value per share with certain selected JSE indices. Dividends paid by Remgro were not taken into account.

	30 June 2019	30 June 2018	30 June 2017	30 June 2016	30 June 2015
Intrinsic net asset value – Rand per share	233.03	256.97	251.48	306.44	288.89
JSE – All share index	58 204	57 611	51 611	52 218	51 807
– Fin & Ind 30 index	77 459	78 391	73 184	73 134	71 344
– Financial 15 index	16 993	16 139	14 470	14 715	16 498
– Healthcare	3 861	6 800	7 538	10 025	9 765
Remgro share price (Rand)	187.90	204.29	213.46	254.66	255.94

Relative performance	Year 30 June 2019 (% year on year)	Period from 28 October 2008 to 30 June 2019 (% compounded per annum)
Intrinsic net asset value	(9.3)	10.0
JSE – All share index	1.0	11.3
– Fin & Ind 30 index	(1.2)	14.3
– Financial 15 index	5.3	11.1
– Healthcare	(43.2)	10.6
Remgro share price	(8.0)	11.1

The following table compares Remgro's IRR with that of certain selected JSE indices. For this purpose it has been assumed that dividends have been reinvested in either Remgro shares or in the particular index, depending on the specific calculation.

	IRR from 28 October 2008 to 30 June 2019 (% compounded per annum)
JSE – All share index	14.6
– Fin & Ind 30 index	17.5
– Financial 15 index	15.9
– Healthcare	13.3
Remgro share	13.9

The following table compares the value at 30 June 2019 of R100 invested on 28 October 2008 in either the relevant index or a Remgro share. For this purpose it has been assumed that dividends have been reinvested in either Remgro shares or in the particular index, depending on the specific calculation.

	R100 invested on 28 October 2008 until 30 June 2019 (Rand)
JSE – All share index	429
– Fin & Ind 30 index	561
– Financial 15 index	482
– Healthcare	344
Remgro share	403

INVESTMENT ACTIVITIES

On 2 July 2018 Unilever South Africa Holdings Proprietary Limited (Unilever) acquired 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 Unilever Spreads business was transferred to Siqalo Foods Proprietary Limited (Siqalo Foods), which became a wholly owned subsidiary of Remgro on 2 July 2018.

During the year under review, Remgro invested a further R2 855 million in Community Investment Ventures Holdings Proprietary Limited (CIVH), in terms of CIVH rights issues. These share subscriptions did not alter Remgro's interest in CIVH. The rights issue proceeds were mainly used to partly fund the Vumatel Proprietary Limited acquisition, as well as to fund Dark Fibre Africa Proprietary Limited's growth strategy. Remgro earned underwriting fees of R58 million in respect of one of the CIVH rights issues. On 14 December 2018 Remgro advanced a loan amounting to R100 million to CIVH. The loan, including accrued interest, and the outstanding amount of the underwriting fees will be converted into CIVH shares subsequent to 30 June 2019.

During October 2018, Remgro invested \$50 million in the Prescient China Equity Fund (Prescient). Prescient was launched during October 2018 and Remgro and Reinet Investments S.C.A. provided the seed capital. Prescient, which uses a systematic, quantitative approach to seek long-term capital growth, invests in listed stocks in the Chinese market and is benchmarked to the Shanghai Shenzhen CSI 300 index.

On 11 September 2018 Rand Merchant Investment Holdings Limited (RMI) declared its final dividend for the year ended 30 June 2018, which included an alternative to the cash dividend of either receiving a scrip distribution or reinvesting the cash dividend by subscribing for new RMI ordinary shares. Remgro elected to reinvest its cash dividend amounting to R300 million, and received 7 894 998 new RMI ordinary shares at R38.00 per share.

The following table represents the cash effects of Remgro's investing activities for the year to 30 June 2019. These activities exclude the investing activities of Remgro's operating subsidiaries, i.e. RCL Foods Limited, Distell Group Holdings Limited, Siqalo Foods and Wispeco Holdings Proprietary Limited.

Investments made and loans granted	R million
CIVH	2 955
Prescient (offshore)	727
RMI	300
Invenfin Proprietary Limited	229
RCL Foods	115
Other	113
	4 439

Investments sold and loans repaid	R million
Unilever	4 900
Milestone Capital Funds (offshore)	822
Li Ning Company Limited (offshore)	162
Other	3
	5 887

INVESTMENT COMMITMENTS

The table below summarises the investment commitments of Remgro as at 30 June 2019.

Investment commitments	R million
Milestone Capital Funds (offshore)	1 299
Pembani Remgro Infrastructure Fund	345
Other	66
	1 710

ECONOMIC COMMENTARY AND OUTLOOK

Fragile real gross domestic product (GDP) growth and low inflation remain the key features of the South African macroeconomic landscape. Under normal circumstances, low inflation is welcomed. However, in combination with weak consumer demand and GDP growth, it weighs on business sector turnover and profits. Ultimately, this compromises Government's ability to generate the required revenue to finance a growing list of big-ticket expenditure outlays. These include seemingly never-ending cash injections for struggling state-owned enterprises.

For the most part, developments post the May election have been disappointing, including the lack of reform momentum and delay in taking hard decisions on, for example, reforming the state and state-owned enterprises. To President Ramaphosa's credit, the anti-corruption drive continues.

Concern about the global economic outlook continues to increase. While the services sector in advanced economies is supported by strong job growth and rising wages, sectors most exposed to the war on trade are taking strain. This is emphasised by the global manufacturing PMI dipping below the 50 line that divides expansion from contraction since May, the first time since 2012 that the global PMI has been below 50. Levels of uncertainty have increased with global real GDP growth forecasts downgraded.

In order to counter these adverse events, a growing list of central banks have reduced their policy interest rates. These include the US Federal Reserve and the European Central Bank, as well as a number of emerging market central banks.

The combination of global growth concerns, low domestic growth and subdued inflation forced the South African Reserve Bank's (SARB) hand to reduce the policy interest rate by

25 bps to 6.5% at its July policy meeting. The repo rate was kept unchanged at the September meeting.

The rand exchange rate has suffered from a combination of the global uncertainties and weak domestic fundamentals. These include low growth, an elevated fiscal deficit and perennial current account shortfalls. In the near term, the rand may remain under pressure as we near the October fiscal update (MTBPS).

Weak domestic demand conditions continue to limit the pass-through of elevated input costs to retail selling prices. So far in 2019 the rise in consumer price index (CPI) inflation has mainly been less than expected.

GDP contracted by a much larger than expected 3.1% quarter-on-quarter (annualised) in the first quarter of 2019. Aided by the absence of load shedding and major strike activity, GDP bounced back by a similar margin in the second quarter. However, it is not clear what will drive faster growth in the second half of the year. Indeed, the RMB/BER business confidence index declined sharply to only 21 in the third quarter. This indicates that about 80% of the survey respondents are unsatisfied with prevailing business conditions. Real GDP growth in 2019 is now expected to be barely positive. A mild recovery towards 1.0 – 1.5% is expected for 2020.



Jannie Durand
Chief Executive Officer

Stellenbosch
19 September 2019

INTRINSIC NET ASSET VALUE

R million	30 June 2019		30 June 2018	
	Book value	Intrinsic value ⁽¹⁾	Book value	Intrinsic value ⁽¹⁾
Banking				
RMH	16 245	33 545	15 385	30 123
FirstRand	5 825	15 069	5 486	14 045
Healthcare				
Mediclinic	24 019	17 891	29 373	31 329
Consumer products				
Unilever	–	–	3 588	11 900
RCL Foods	7 968	7 960	8 128	11 534
Distell	9 055	9 060	9 110	9 674
Siqalo Foods	6 164	6 164	–	–
Insurance				
RMI	9 335	15 947	8 479	17 285
Industrial				
Air Products	1 093	4 264	1 026	4 158
Total	2 174	2 722	2 007	2 382
KTH	1 816	2 127	1 964	2 218
Wispeco	933	866	874	984
PGSI	302	302	692	692
Infrastructure				
CIVH	5 064	8 403	2 301	4 940
Grindrod	1 049	1 049	1 624	1 624
Grindrod Shipping	292	292	623	623
SEACOM	–	912	353	870
Other infrastructure interests	259	259	256	256
Media and sport				
eMedia Investments	773	773	866	866
Other media and sport interests	269	267	223	268
Other investments	4 620	4 795	4 060	4 196
Central treasury				
Cash at the centre ⁽²⁾	15 727	15 727	13 704	13 704
Debt at the centre	(13 919)	(13 919)	(14 097)	(14 097)
Other net corporate assets	2 034	2 499	2 073	2 536
Intrinsic net asset value (INAV)	101 097	136 974	98 098	152 110
Potential CGT liability⁽³⁾		(5 327)		(6 438)
INAV after tax	101 097	131 647	98 098	145 672
Issued shares after deduction of shares repurchased (million)	564.9	564.9	566.9	566.9
INAV after tax per share (Rand)	178.95	233.03	173.04	256.97
Remgro share price (Rand)		187.90		204.29
Percentage discount to INAV		19.4		20.5

⁽¹⁾ For purposes of determining the intrinsic net asset value, the unlisted investments are shown at IFRS 13 valuations and the listed investments are shown at stock exchange prices.

⁽²⁾ Cash at the centre excludes cash held by subsidiaries that are separately valued above (mainly RCL Foods, Distell, Siqalo Foods and Wispeco).

⁽³⁾ The potential capital gains tax (CGT) liability is calculated on the specific identification method using the most favourable calculation for investments acquired before 1 October 2001 and also taking into account the corporate relief provisions. Deferred CGT on investments at fair value through other comprehensive income is included in "other net corporate assets" above.

Remgro's unlisted investments were valued as follows:

INVESTMENT	VALUATION METHODOLOGY
Air Products	Discounted cash flow method
Business Partners	Net asset value
CIVH	Discounted cash flow method
Kagiso Tiso Holdings	Sum-of-the-parts (external valuation)
PGSI	Discounted cash flow method
PRIF	Sum-of-the-parts
eMedia Investments	Comparable market price
SEACOM	Discounted cash flow method
Total	Discounted cash flow method
Sigalo Foods	Discounted cash flow method
Wispeco	Discounted cash flow method