

UNDERSTANDING THE BUSINESS OF AN INVESTMENT HOLDING COMPANY

UNDERSTANDING REMGRO'S STATUTORY REPORTING ON NET PROFIT

In order to understand how Remgro makes its money, one first needs to understand its reported results.

Remgro's statutory reported net profit consists primarily of the following:

- Consolidated results of its operating subsidiaries, i.e. RCL Foods, Distell, Wispeco and Siqalo Foods;
- Equity accounted results of its investments in associates and joint ventures, e.g. Mediclinic, FirstRand, RMH and RMI, which are the four biggest contributors towards net profit;
- Profit/loss on the realisation of investments;
- Net impairment of investments;
- Dividends received from investee companies not classified as subsidiaries, associates and joint ventures, e.g. the Milestone China Funds and the Pembani Remgro Infrastructure Fund;
- Interest received;
- Interest paid;
- Net corporate costs, including remuneration and other benefits paid to employees; and
- Taxation.



CAPITAL ALLOCATION – THE MOST IMPORTANT FUNCTION OF AN INVESTMENT HOLDING COMPANY

Capital is expensive and not infinite. As we deal with an uncertain future, and inevitably base capital allocation models on certain assumptions about the future, we need a margin of safety in our investment decisions. We need to be disciplined in our allocation of capital and, if we are wrong, we should act quickly and decisively.

INVESTMENT HOLDING COMPANY

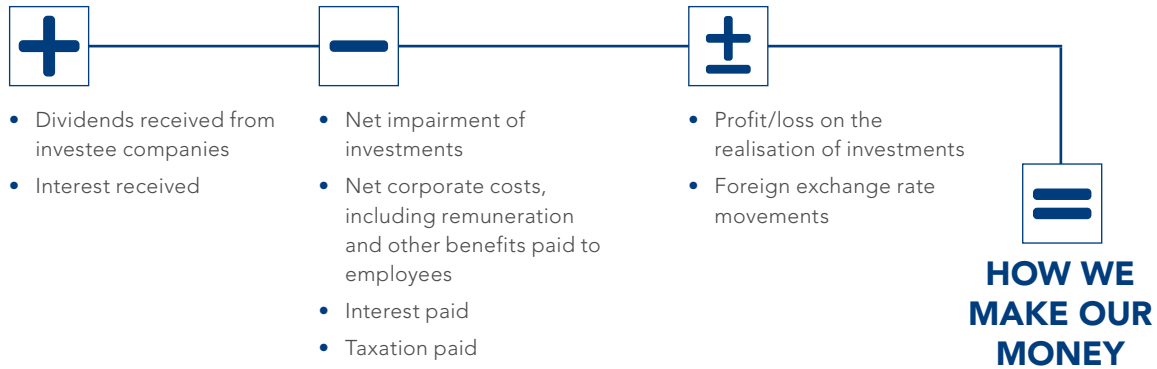
WHAT WE BRING TO THE INVESTEE COMPANIES, IRRESPECTIVE OF OUR LEVEL OF INFLUENCE:

- Strategic input
- Capital allocation
 - Financial capital to further growth
 - Manufactured capital
 - Human capital in management support
 - Relationship capital in identification of opportunity
 - Intellectual capital
 - Environmental capital
- Treasury services (as required)
- Dealmaking ability (environment for corporate transactions)
- Decentralised management approach
- Internal audit and risk services (as required)

INVESTMENTS

The value and performance of the underlying investments, rather than the activities at holding company level, will determine to a large extent the value created for an investment holding company's shareholders, although dealmaking at holding company level can also add significant value.

THE BEST APPROXIMATION OF REMGRO’S PROFIT AT HOLDING COMPANY LEVEL (AT THE CENTRE) COMPRISES:



Given its nature as an investment holding company and the substantial amount of cash held and managed, the control of treasury risks are regarded as very important. This includes the management of movements in foreign exchange rates, which is covered in the Chief Financial Officer’s (CFO) Report on page 32.

DISTRIBUTION TO SHAREHOLDERS

Distribution is funded from dividend income and interest received at the centre. Our normal dividend objective is to provide shareholders with a consistent annual dividend flow which at least protects them against inflation. As in the past, in special circumstances, Remgro will consider other distributions in the form of special dividends, share buy-backs or the unbundling of investments to shareholders.

MEASURING SUCCESS THROUGH INTRINSIC VALUE

Remgro further measures its performance in terms of the increase in its intrinsic net asset value. This measures the growth in the underlying value of the various investee companies, measured by listed market value or, in the case of unlisted investments, applying the principles of IFRS 13. Refer to the Chief Executive Officer’s Report on page 25 for a detailed analysis of Remgro’s intrinsic net asset value.