Understanding the business of Remgro

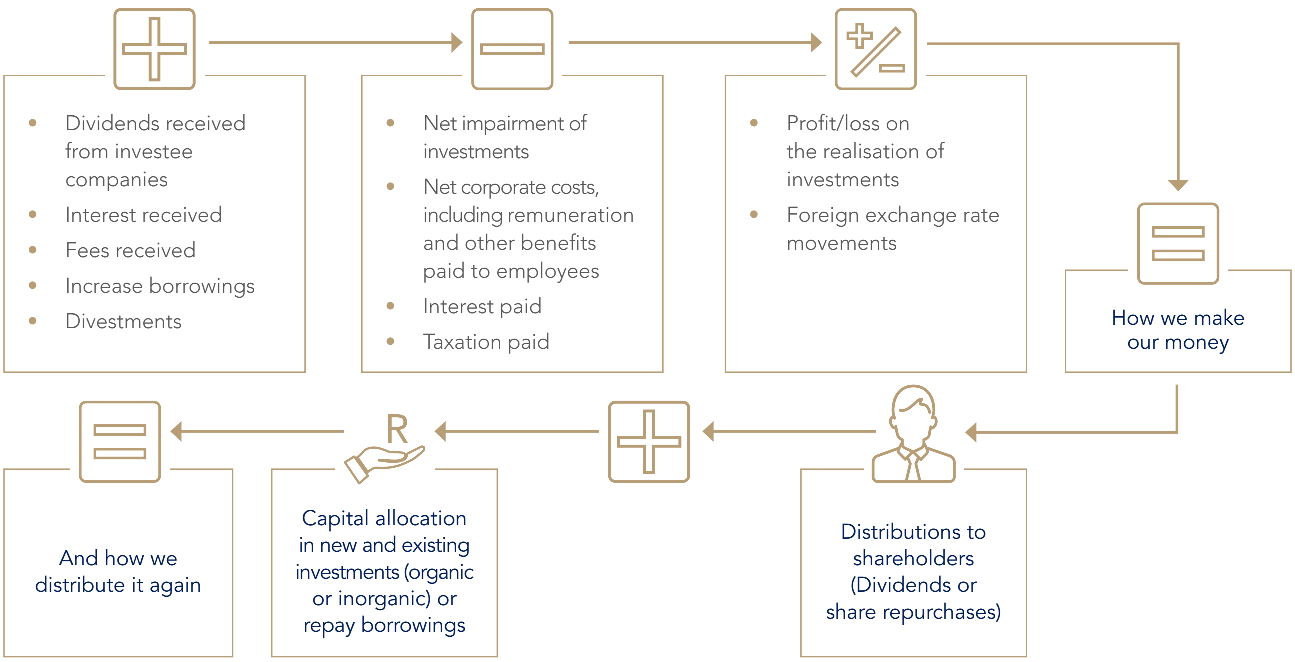
Understanding Remgro's statutory reporting on net profit

In order to understand Remgro's cash generation process, 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, Wispeco, Siqalo Foods and Capevin;
- Equity accounted results of its investments in associates and joint ventures, e.g. Mediclinic, OUTsurance Group, CIVH, Heineken Beverages, Air Products and TotalEnergies;
- 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. FirstRand, Discovery and Momentum, 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.

The best approximation of Remgro's results at holding company level (at the centre) comprises:



Given its nature as an investment company and the substantial amount of cash held and managed, the management of treasury risks is regarded as very important, which is covered in the Chief Financial Officer's Report on page 34.

Capital allocation – Remgro's most critical function

Capital is expensive and finite. As we deal with an uncertain future, exacerbated by current global economic and geopolitical pressures, and inevitably base capital allocation decisions on certain assumptions about the future, we need to be prudent and have a margin of safety built into these investment decisions.

It is important to be disciplined in our allocation of capital and to monitor, and if necessary act quickly and decisively. A large part of Remgro's successful track record of value creation is attributable to being able to balance our investments with a mix of young growth companies and more established cash-generating companies to ensure superior returns to shareholders by way of sustainable dividends and capital growth.

There are two parts to the capital allocation decision – where we source capital and where we deploy it – and the decisions on how to balance the sources and uses of capital are informed by forces internal and external to the company.

As a holding company we obtain our capital from four potential sources: returns from underlying investments (dividends, fees or interest), disposing of investments, increasing borrowings or raising equity capital. In turn, we can deploy capital to four broad uses: undertake investments (new or follow-on; organic or inorganic), repay borrowings, pay dividends or repurchase our own shares. The following table sets out pertinent considerations regarding our capital allocation decisions:

Sources of capital

Returns from underlying investments (predominantly dividends)

Considerations

Remgro considers cash generation, and the ability to deliver cash returns to shareholders, as a critical feature from its underlying investments. While mindful that an investment's development through the maturity curve may cause changes to the dividend profile over time, Remgro looks for investee companies to return cash to shareholders after providing capital for value accretive growth opportunities, reinvestment and maintaining a sustainable capital structure.

Increases in borrowings

Considerations

While Remgro's underlying investees utilise appropriate levels of borrowings to optimise returns to shareholders, Remgro adopts a cautious approach to overlaying further leverage at the holding company level. While the lumpiness of corporate actions may from time to time cause Remgro to utilise borrowings, this will be done in a manner that is mindful of interest rate cycles. Remgro will seek to maintain a conservative approach to borrowings at the centre in order to optimise costs and avoid potential structural inefficiencies.

Divestments

Considerations

While many of Remgro's investments represent long-term, core holdings, some level of asset velocity in the portfolio is healthy and Remgro continues to evaluate where divestments are supportive of its long-term investment thesis. Remgro's portfolio holdings represent sources of shorter-term liquidity and in this regard divestment decisions are informed by market conditions, asset prices and opportunities to redeploy capital.

Equity issuance

Considerations

To the extent Remgro has a requirement for capital, whether to pursue growth opportunities or otherwise, that is in excess of its internally generated funds, its liquid sources of capital or prudent borrowing appetite, Remgro will look to raise equity capital from shareholders.

Capital allocation – Remgro's most critical function (continued)

Uses of capital

Investments

Considerations

As an investment company, over time Remgro's primary objective is to deploy shareholders' capital into value accretive investment opportunities and to manage those investments in a manner that will optimise stakeholder value. In this respect, Remgro has a bias towards organic or brownfields opportunities, either with partners or within the investee companies, where the opportunity exists to internally generate goodwill. Remgro also remains mindful of inorganic growth opportunities through acquisitions, at investee companies or at the Remgro level, and in this respect Remgro's appetite is shaped not only by the opportunities available to it, but also the external environment, including the regional economy, global macroeconomics, geopolitics and asset prices.

Reduce borrowings

Considerations

As noted before, Remgro adopts a conservative approach to borrowings at the centre and where growth opportunities or corporate actions merit the use of borrowings, Remgro will look to responsibly reduce such exposure over time.

Dividends

Considerations

Remgro believes that a sustainable cash dividend has always been an important feature of its investment thesis and therefore it remains the priority mechanism through which cash is returned to shareholders.

Share repurchases

Considerations

Remgro will dynamically use share repurchases in instances where the opportunity exists to purchase shares at a sufficient margin below Remgro's internal assessment of the value of the portfolio and when Remgro has capital available in excess to other priorities, including value accretive growth initiatives in the portfolio, reduction of borrowings and the payment of dividends.

Building on its stated commitment to integrate Environmental, Social and Governance (ESG) principles and corporate sustainability into its core strategy, Remgro remains dedicated to responsible stewardship in asset management and new investments. The goal is to deliver sustainable financial returns, while generating positive social and environmental impacts to provide value to all stakeholders. Remgro's ESG Investment Framework provides guidelines for capital allocation, aiming to foster environmental, social and economic change throughout its ecosystem.

Investment company

Remgro strives to enable investee companies to fulfil their growth strategies and targets that achieves shared value for all stakeholders over the long term. The support we provide, irrespective of our level of influence, includes:

- Strategic input and "thinking partners"
- Capital allocation
  - Financial capital to support growth strategies
  - Human capital in management support
  - Integration of responsible investment principles for enhanced ESG performance
  - ESG targets, principles, and disclosure guidance
- Dealmaking ability (environment for corporate transactions)
- Treasury services (as required)
- Internal audit and risk services (as required)
- Formal and informal networks for broader opportunities and benefit

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 company's shareholders, although dealmaking at holding company level can also add significant value.

Distributions to shareholders

Cash distributions are funded from dividend income and interest received at the centre. Our dividend objective is to provide shareholders with a consistent annual dividend flow that at least protects them against inflationary pressures. As in the past, Remgro consistently evaluates the appropriateness of 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 value of the various underlying investee companies, measured by listed market value or, in the case of unlisted investments, applying the principles of *IFRS 13: Fair Value Measurement*. Refer to the Chief Executive Officer's Report on page 27 for a detailed analysis of Remgro's intrinsic net asset value, briefly citing the differences between an *IFRS 13* valuation and a transactional valuation.