

# CHIEF FINANCIAL OFFICER'S REPORT

Remgro's headline earnings, excluding option remeasurement, increased by 10.3%.

**NEVILLE WILLIAMS**  
CHIEF FINANCIAL OFFICER



## INTRODUCTION

Due to Remgro being an investment holding company, traditional measurements of performance, such as sales or gross profit, are not meaningful criteria for evaluating the Group's performance. However, management uses "headline earnings", "intrinsic net asset value" and "cash at the centre" to evaluate the performance of the Group on a continuous basis and hence these concepts are used throughout the Integrated Annual Report to provide shareholders with a better understanding of our results.

## RESULTS

### HEADLINE EARNINGS

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. The increase in headline earnings, excluding option remeasurement, is mainly due to higher earnings from the banking and insurance platforms, RCL Foods, Total and higher finance income, offset by a lower contribution from

Mediclinic as well as transaction costs incurred on the Distell ownership restructuring and the Unilever Spreads business acquisition.

## COMMENTARY ON REPORTING PLATFORMS' PERFORMANCE

### BANKING

The headline earnings contribution from the banking division amounted to R3 525 million (2017: R3 163 million), representing an increase of 11.4%. FirstRand and RMH reported headline earnings growth of 11.6% and 11.4% respectively. On a normalised basis, which excludes certain non-operational and accounting anomalies, and is a better reflection of underlying performance, both FirstRand and RMH reported earnings growth of 7.9%. These increases are mainly due to growth in both net interest income, underpinned by good growth in advances and deposits, and non-interest revenue due to strong growth in fee and commission income. This growth in earnings was partly offset by an increase in non-performing loans due to the constrained macro-economic environment resulting in an increase in credit impairment charges.

### HEALTHCARE

Mediclinic's contribution to Remgro's headline earnings amounted to R1 556 million (2017: R1 875 million), representing a decrease of 17.0%. It should be noted that all the Al Noor facilities were rebranded to Mediclinic and therefore Mediclinic's contribution for the year under review included an accelerated amortisation charge of R171 million relating to the Al Noor trade name. Mediclinic's contribution also included a derecognition charge of R114 million in respect of unamortised finance expenses relating to the refinancing of Hirslanden's debt. Excluding the