CHIEF EXECUTIVE OFFICER'S REPORT

GREAT COMPANIES ARE DIFFERENTIATED BY HOW WELL THEY CAN **ADAPT TO A CHANGING ENVIRONMENT.**

Jannie Durand
Chief Executive Officer

INTRODUCTION

The onslaught of the Covid-19 pandemic has undoubtedly changed our economic, political and social environments faster than anyone would have anticipated prior to its outbreak. It has forced individuals and companies alike to re-evaluate the manner in which we interact and the way in which we will continue to do business going forward.

While Covid-19 has forced change on us all, 2020 has also been another major inflection point for Remgro following the unbundling of our interests in RMB Holdings Limited (RMH) as further detailed below (RMH Unbundling). As with previous inflection points in Remgro's history (the previous major one being the unbundling of Remgro's interests in British American Tobacco plc in 2008), this provides Remgro with another opportunity to reshape its trajectory while continuing to drive value creation through a portfolio that has now been rebalanced with an increase in the unlisted investments' weighting.

Since Remgro's inception in 1948 (then Rembrandt) it has strived to be the trusted investment company of choice that consistently creates sustainable stakeholder value, and by most measures it has done exactly that owing largely to the values that drive the way we do business and our ability to navigate the ever changing environment around us.

While Covid-19 has certainly put us to the test, we remain confident in the agility of our portfolio not only to overcome the unique challenges that this crisis has presented, but also to take hold of the various opportunities that every crisis inevitably provides.

While Remgro's intrinsic net asset value remains the most appropriate indicator of the value added for our shareholders, the rest of this report aims to provide (i) an overview of the relative performance of Remgro's intrinsic net asset value per share and internal rate of return measured against selected JSE indices; (ii) a summary of our investment activities and commitments for the year; and (iii) commentary on the prevailing economic climate.

INTRINSIC NET ASSET VALUE

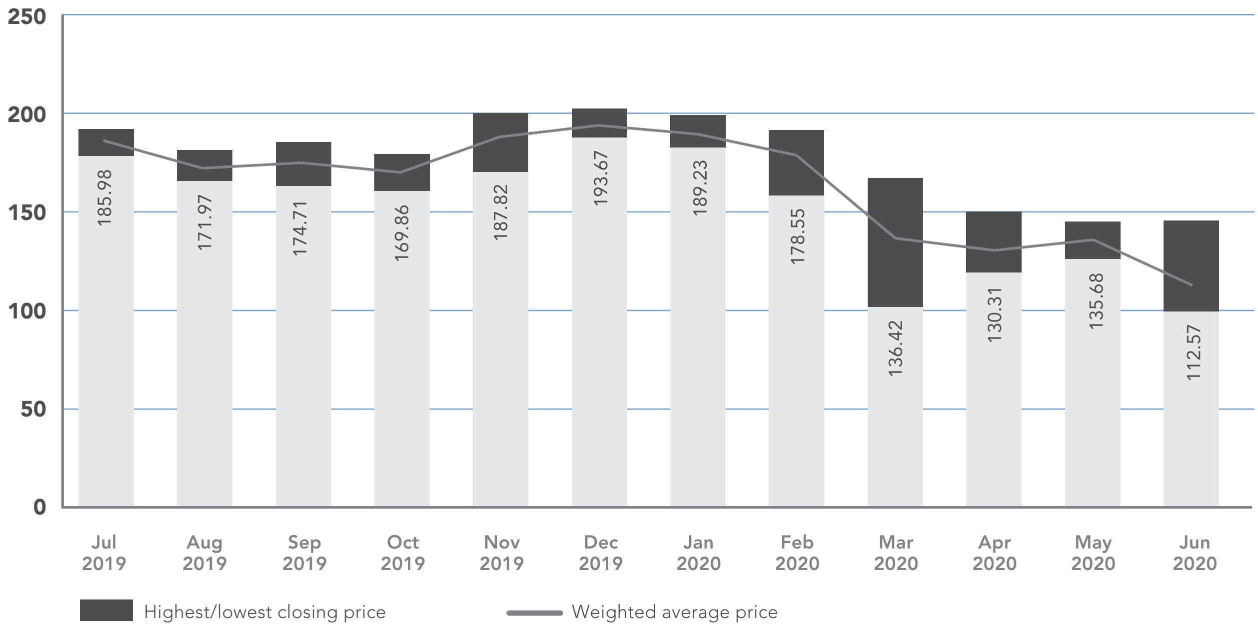
Remgro's intrinsic net asset value per share decreased by 33.7% from R233.03 at 30 June 2019 to R154.47 at 30 June 2020. The decrease reflects the impact of the RMH Unbundling and the negative impact of the Covid-19 pandemic on market values (listeds) and fair values (unlisteds) of underlying investee companies. The closing share price at 30 June 2020 was R99.90 (30 June 2019: R187.90), representing a discount of 35.3% (30 June 2019: 19.4%) to the 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, in the context of discounted cash flow valuations, the equity beta, capital structure and cost of debt be determined based on information obtained for similar assets or market participants, after certain adjustments are made. This impacts on the weighted average cost of capital (WACC) used when discounting the cash flows for purposes of the *IFRS 13* valuation and is expected to be different from those applied in

REMGRO SHARE PRICE (RAND PER SHARE)



a transactional valuation approach as the target or actual inputs are replaced with inputs derived from considering the position of hypothetical market participants. Consequently, a valuation derived by applying the *IFRS 13* framework is expected to differ from a transactional valuation.

SIGNIFICANT INVESTMENT ACTIVITIES

On 31 March 2020 Remgro announced that it will proceed with the full distribution of its 28.2% interest in RMH (RMH Unbundling) and retain its 3.9% direct interest in FirstRand Limited (FirstRand). On 8 June 2020 Remgro distributed 397 447 747 ordinary shares in RMH amounting to R23 855 million in the ratio of 0.69939 RMH ordinary shares for every 1 Remgro share held. At that date, Remgro also ceased to have significant influence over FirstRand, due to among others the RMH Unbundling, and the investment was reclassified from an equity accounted investment to an investment at fair value through other comprehensive income.

With the RMH unbundling, Remgro's investment view on its 3.9% stake in FirstRand has changed, and the stake is now viewed as a portfolio investment. In line with this view it was decided to enter into a hedging transaction on part of this stake, whilst still maintaining full downside risk and upside potential on the majority of the stake. Remgro entered into a zero cost collar hedging transaction with Nedbank Limited (Nedbank) during June 2020 for 60 000 000 of the FirstRand shares that it owns. At the same time, Remgro entered into a script lending transaction with Nedbank to optimise the pricing of the zero cost collar. Remgro will be allowed to vote these shares at the FirstRand Annual General Meeting and is entitled to any dividends declared. However, all dividends received on FirstRand shares for which Nedbank holds a direct or indirect short position for the purpose of hedging its exposure under the zero cost collar (up to a maximum of 60 000 000 FirstRand shares), will be transferred to Nedbank. The reference price of the zero cost collar is R40.51 and it expires in two years. The strike prices vary between R36.46 and R51.97 on the put options and call options, respectively. These FirstRand shares are hedged on a 1:1 basis and the zero cost collar is recognised at fair value with changes in the fair value accounted for in other comprehensive income. The zero cost collar was valued as an asset at R101 million on 30 June 2020.

During the year under review, Remgro invested a further $2 million in Milestone China Opportunities Fund III (Milestone III) and received distributions of $46 million, thereby increasing its cumulative investment to $100 million and cumulative distributions received to $71 million. As at 30 June 2020 the fair value of Remgro's investment in Milestone III amounted to $72 million.

The following table represents the cash effects of Remgro's investment activities for the year to 30 June 2020. These activities exclude the investing activities of Remgro's operating subsidiaries, i.e. RCL Foods Limited, Distell Group Holdings Limited, Siqalo Foods Proprietary Limited and Wispeco Holdings Proprietary Limited.

Investments made and loans granted	R million
Invenfin Proprietary Limited	131
RCL Foods	100
Pembani Remgro Infrastructure Fund	62
Other	185
	478

Investments sold and loans repaid	R million
Milestone Capital Funds (offshore)	692
JHL Biotech, Inc. bonds (offshore)	166
Other	21
	879

INVESTMENT COMMITMENTS

The table below summarises the investment commitments of Remgro as at 30 June 2020.

Investment commitments	R million
Pembani Remgro Infrastructure Fund	278
Invenfin Proprietary Limited	171
Other	37
	486

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

The table below compares the Remgro intrinsic net asset value per share with certain selected JSE indices at 30 June during the last five years. The material decrease in the Remgro share price and intrinsic net asset value reflects the unbundling of Remgro's interest in RMH on 8 June 2020, as well as the negative impact of the Covid-19 pandemic.

	30 June 2020	30 June 2019	30 June 2018	30 June 2017	30 June 2016
Intrinsic net asset value – Rand per share	**154.47**	233.03	256.97	251.48	306.44
JSE – All share index	**54 362**	58 204	57 611	51 611	52 218
– Fin & Ind 30 index	**70 975**	77 459	78 391	73 184	73 134
– Financial 15 index	**10 034**	16 993	16 139	14 470	14 715
– Healthcare	**3 894**	3 861	6 800	7 538	10 025
Remgro share price (Rand)	**99.90**	187.90	204.29	213.46	254.66

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

	One year 30 June 2020 (% year on year)	**Five years 30 June 2020 (% compounded per annum)**	**IRR from 28 October 2008 to 30 June 2020 (% compounded per annum)**
JSE – All share index	**(3.3)**	**4.2**	**12.9**
– Fin & Ind 30 index	**(5.5)**	**2.7**	**15.3**
– Financial 15 index	**(36.9)**	**(4.8)**	**10.0**
– Healthcare	**2.9**	**(15.3)**	**11.4**
Remgro share	**(24.6)**	**(9.2)**	**10.3**

ECONOMIC COMMENTARY AND OUTLOOK

Even before the unprecedented economic collapse brought about by measures to contain the Covid-19 pandemic, the South African economy was in deep trouble. The country suffered technical recessions (defined by two consecutive quarters of declining GDP) in 2018 and 2019. Furthermore, at the start of 2020, South Africa was already experiencing by far the longest business cycle downswing on record. Since the end of 2013, general economic activity had been weaker than the long-term trend.

Against this depressed economic backdrop, government revenue was unable to keep pace with rising expenditure. This resulted in sharp rising public sector debt levels, forcing multiple downgrades of South Africa's creditworthiness by the major credit rating agencies. And then the Covid-19 pandemic reached our shores in March 2020. The non-pharmaceutical interventions implemented to contain the spread of the virus meant that South Africa experienced meaningful restrictions on movement and economic activity for the entire second quarter of 2020. This was also true in most other parts of the world.

South Africa has felt the full brunt of the health pandemic, with the number of confirmed domestic Covid-19 cases amongst the highest in the world. Fortunately, most likely because of a young population, South Africa has seen fewer Covid-19-related deaths compared to many other countries. Further positive news is that by late July the country in all likelihood reached the peak of new infections. This was earlier than initially expected. The number of active Covid-19 cases has already declined sharply from a peak of about 170 000 at the end of July. This allowed government to open up the economy further in the latter part of August. But the damage had already been done.

Statistics South Africa reported that quarterly GDP contracted by a record 16.4% in the second quarter. The decline was worse than in most of South Africa's peer countries, as well as our major trading partners. As the economy reopened from the strict Level 5 lockdown in April and demand started to recover, pre-existing growth constraints resurfaced. These include Eskom's long-lasting inability to meet the country's electricity requirements.

On a positive note, incoming data for July indicates that the initial bounce back from the second quarter GDP crash could be faster than earlier estimates. However, the overall level of activity is likely to remain below the pre-Covid-19 experience for some time. The notable pre-Covid-19 vulnerabilities, a strict (and in some cases irrational) lockdown, and limited fiscal headroom to support livelihoods highlight the risk of more lasting damage from the pandemic than may be the case in other parts of the world. Therefore, the medium-term GDP recovery is likely to be protracted. Corporates (through soft fixed investment outlays) and consumers (by avoiding big-ticket purchases) are expected to remain cautious spenders in the foreseeable future.

The outlook for the global economy remains intricately tied to the course of the Covid-19 pandemic. Absent a vaccine, the risk of renewed flare-ups, as recently experienced in Europe and some Asian countries, remains. In all, while the outlook may not be as dire as assumed before, excluding China, economic activity in South Africa's major export markets is set to remain below pre-Covid-19 levels for a while still. This is expected to limit the recovery in local export volumes.

CONCLUSION

While the economic outlook for the short to medium term is grim, Remgro stays committed to ensuring that its balance sheet is resilient and that it remains focused on making the best of that which is within its control in these uncertain times.

I would like to express my sincere condolences to our colleagues and their families that have lost loved ones during the pandemic. I would also specifically like to thank my colleagues at Remgro and our underlying investee companies for their incredible efforts shown on various levels to help combat the impact of the virus and for standing up as active participants for positive change in the various societies in which they operate.

I am also excited by the increased focus within our Group on doing business sustainably and in line with the highest ethical standards to ensure a Remgro that is "fit for the future". For more information on the various initiatives being implemented within the Group in this regard, please refer to our Abridged Sustainable Development Report on page 105.

Jannie Durand
Chief Executive Officer

Stellenbosch
28 September 2020

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
Siqalo Foods	Discounted cash flow method
Wispeco	Discounted cash flow method

INTRINSIC NET ASSET VALUE

R million	30 June 2020 Book value	30 June 2020 Intrinsic value[1]	30 June 2019 Book value	30 June 2019 Intrinsic value[1]
Financial services[2]				
RMI	9 736	13 708	9 335	15 947
FirstRand[3]	7 068	7 068	5 825	15 069
RMH	–	–	16 245	33 545
Healthcare				
Mediclinic[4]	27 443	18 769	24 019	17 891
Consumer products				
RCL Foods[4]	7 189	6 029	7 968	7 960
Distell[4]	7 128	5 330	9 055	9 060
Siqalo Foods[4]	6 285	6 145	6 164	6 164
Industrial				
Air Products	1 264	3 979	1 093	4 264
Total	2 029	2 515	2 174	2 722
KTH	1 601	1 961	1 816	2 127
Wispeco[4]	1 008	810	933	866
PGSI	205	309	302	302
Infrastructure				
CIVH	4 458	10 584	5 064	8 403
Grindrod	532	532	1 049	1 049
Grindrod Shipping	208	208	292	292
SEACOM	8	909	–	912
Other infrastructure interests	370	376	259	259
Media and sport				
eMedia Investments	805	947	773	773
Other media and sport interests	321	321	269	267
Other investments	4 400	4 439	4 620	4 795
Central treasury				
Cash at the centre[5]	17 073	17 073	15 727	15 727
Debt at the centre	(15 288)	(15 288)	(13 919)	(13 919)
Other net corporate assets	2 930	3 599	2 034	2 499
Intrinsic net asset value (INAV)	86 773	90 323	101 097	136 974
Potential CGT liability[6]		(3 050)		(5 327)
INAV after tax	86 773	87 273	101 097	131 647
Issued shares after deduction of shares repurchased (million)	565.0	565.0	564.9	564.9
INAV after tax per share (Rand)	153.59	154.47	178.95	233.03
Remgro share price (Rand)		99.90		187.90
Percentage discount to INAV		35.3		19.4

(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) *Refer to the change in reporting platforms on page 30.*

(3) *On 8 June 2020 the investment in FirstRand was reclassified from an associate investment to an investment at fair value through other comprehensive income. The 30 June 2020 intrinsic value for FirstRand includes the investment at market value, deferred capital gains tax (CGT) on the investment and the zero cost collar hedge on 60 000 000 FirstRand shares.*

(4) *Remgro determined the recoverable amounts for Mediclinic, RCL Foods, Distell, Siqalo Foods and Wispeco which are in excess of the investments' carrying values.*

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

(6) *The potential 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. Apart from FirstRand, the deferred CGT on investments at fair value through other comprehensive income is included in "other net corporate assets" above.*