

Remgro Limited

Interim Results Press Release for Remgro Limited

(Remgro)

CERTAIN INVESTMENT PERFORMANCES REFLECTIVE OF CHALLENGING MARKET CONDITIONS

- **Intrinsic net asset value per share, since 30 June 2015:**
 - decreased by 0.7% to R286.96 as at 31 December 2015
 - increased by 2.8% to R297.11 as at 11 March 2016
- **Headline earnings per share decreased by 1.0% to 704.4 cents**
- **Interim dividend per share for the period increased by 9.5% to 185 cents**

Remgro's major underlying investments, in particular its food, liquor and home care as well as healthcare investments, delivered a solid performance for the six months ended 31 December 2015. The banking investments' contribution to headline earnings was subdued with the insurance, industrial, infrastructure and media & sport investments' performances reflecting the challenging economic and trading conditions affecting most South African sectors.

Headline earnings for the period to 31 December 2015 amounted to R3 624 million compared to R3 658 million for the period to 31 December 2014, representing a decrease of 0.9%, whereas headline earnings per share decreased by 1.0% from 711.7 cents to 704.4 cents. Remgro's intrinsic net asset value per share at 30 June 2015 of R288.89 decreased by 0.7% to R286.96 at 31 December 2015 and increased by 2.8% to R297.11 at 11 March 2016.

The contribution to headline earnings by reporting platform is presented in the table below.

R'million	Six months 31 December 2015	Change (%)	Six months 31 December 2014	Year ended 30 June 2015
Food, liquor and home care	1 250	28.3	974	1 531
Banking	1 386	2.9	1 347	2 845
Healthcare	787	17.5	670	1 734
Insurance	455	(17.1)	549	986
Industrial	5	(28.6)	7	381
Infrastructure	74	(18.7)	91	392
Media and sport	(28)	(354.5)	11	(16)
Other investments	31	(20.5)	39	84
Central treasury				
- Finance income	77	35.1	57	111
- Finance costs	(219)	-	-	-
Other net corporate costs	(194)	(123.0)	(87)	(52)
Headline earnings	3 624	(0.9)	3 658	7 996

The contribution from **food, liquor and homecare** to Remgro's headline earnings amounted to R1 250 million (2014: R974 million), representing an increase of 28.3%. RCL Foods contribution to Remgro's headline earnings increased by 23.0% to R582 million (2014: R473 million). This increase is mainly the result of a release of R163 million relating to a provision raised as part of the Foodcorp acquisition for uncertain tax disputes. Excluding this remeasurement, RCL Foods' contribution to Remgro's headline earnings would have decreased by 3.6% to R456 million. During the period under review RCL Foods' Grocery, Pies, Speciality, Beverages, Animal Feed and Logistics businesses performed well, but the Sugar and Chicken businesses remained under pressure due to severe drought conditions and increased maize and wheat prices respectively. Unilever's contribution to Remgro's headline earnings increased by 57.4% to R307 million (2014: R195 million). This increase is mainly the result of revenue growth and margin improvement. Distell's contribution to headline earnings, which includes the investment in Capevin Holdings, amounted to R361 million (2014: R306 million). This increase is mainly the result of revenue growth and efficiency improvements across the business. Distell experienced strong performances from all product categories and also benefited from a substantially weaker rand against the major currencies in which it trades.

The headline earnings contribution from the **banking** division amounted to R1 386 million (2014: R1 347 million), representing an increase of 2.9%. FirstRand and RMBH reported headline earnings growth of 5.0% and 2.3% respectively, mainly due to growth in both interest income and non-interest income from FNB, RMB and WesBank. On a normalised basis, FirstRand and RMBH reported earnings growth of 9.2% and 8.9%, respectively.

Mediclinic's, Remgro's only **healthcare** investment, contribution to headline earnings amounted to R787 million (2014: R670 million). This increase is mainly due to solid performances by all three operating platforms, as well as the positive effect of the weaker rand. The significant corporate activity undertaken by Mediclinic during the period under review had an immaterial impact on Remgro's results for this reporting period, but will impact the results of the second six months.

RMI Holdings', Remgro's **insurance** investment, contribution to headline earnings decreased by 17.1% to R455 million. This decrease is mainly the result of a once-off profit in the comparative period, with the release of a put option liability at Discovery, which is excluded from RMI Holdings' normalised earnings. On a normalised basis, RMI Holdings reported an increase of 3.6% in earnings, with Discovery and OUTsurance achieving good earnings growth of 7.5% and 24.7% respectively, offset by lower earnings from MMI Holdings (lower by 8.9%).

Industrial includes Total's contribution to Remgro's headline earnings which amounted to R51 million (2014: a loss of R112 million). Included in the contribution to headline earnings for the period under review is substantial unfavourable stock revaluations amounting to R144 million (2014: unfavourable stock revaluations of R275 million). These revaluations are the result of the volatility in the Brent Crude price and the rand exchange rate. Excluding these revaluations, the contribution increased by 19.6% from R163 million to R195 million. Remgro's share of the results of KTH amounted to a loss of R260 million (2014: loss of R62 million). KTH's results were negatively impacted by unfavourable fair value adjustments relating to its investments in Exxaro Resources Limited and MMI Holdings Limited preference shares. Air Products' and Wispeco's contribution to headline earnings amounted to R142 million and R54 million respectively (2014: R108 million and R48 million), while PGSI contributed R18 million to Remgro's headline earnings (2014: R25 million).

Grindrod's, an **infrastructure** investment, contribution to Remgro's headline earnings amounted to R43 million (2014: R76 million). This decrease is mainly the result of weak commodity markets and significantly lower dry-bulk shipping rates. For the period under review the CIV group contributed R35 million to headline earnings (2014: R5 million). SEACOM reported a headline loss of R111 million for the period under review (2014: headline earnings of R40 million), with Remgro's share of this loss amounting to R28 million (2014: profit of R8 million). This decrease is mainly due to a higher depreciation charge on certain cable assets resulting from a change in the estimated useful life of these assets.

Media and sport interests primarily consist of the interests in eMedia and various sport interests, including interests in rugby franchises, as well as the Stellenbosch Academy of Sport. eMedia's contribution to Remgro's headline earnings decreased by 75.0% to R11 million (2014: R44 million), mainly due to lower advertising revenue and new business development costs. The sport interests' contribution to headline earnings amounted to a loss of R39 million (2014: loss of R33 million).

The contribution from **other investments** to headline earnings amounted to R31 million (2014: R39 million), of which Business Partners' contribution was R21 million (2014: R20 million).

Central treasury and other net corporate costs includes finance income amounting to R77 million (2014: R57 million). This increase is mainly the result of higher average cash balances, as well as higher interest rates than in the comparative period. Finance costs consist of funding costs amounting to R91 million, which relates to the R3.5 billion borrowed in order to participate in the Mediclinic rights issue, as well as once-off transaction costs amounting to R128 million in respect of the bridge financing of the Mediclinic rights issue and Al Noor transactions. Other net corporate costs amounted to R194 million (2014: R87 million). The period under review includes transaction and funding costs amounting to R114 million relating to Remgro's acquisition of Spire Healthcare Group plc (Spire). Remgro recouped this amount from Mediclinic as part of the Spire disposal consideration, which resulted in a profit on disposal of investment of R153 million, excluded from headline earnings.

The most important investment activity undertaken by Remgro during the period related to the facilitation of the **Mediclinic/Spire transaction** concluded in July 2015. The transaction included a Mediclinic rights issue with Remgro as the underwriter. In order to participate in the rights issue, Remgro obtained bridge financing amounting to R3.5 billion and during January 2016, Remgro replaced the bridge financing by issuing fixed rate cumulative redeemable preference shares with a tenor of four years and a fixed dividend rate of 7.7%, payable semi-annually.

In addition, on 14 October 2015 **Mediclinic and Al Noor Hospitals Group plc (Al Noor)** agreed to combine their respective businesses pursuant to which Al Noor offered to acquire 100% of Mediclinic. The transaction was concluded on 15 February 2016 and given the size of these two businesses, it was classified as a reverse takeover of Al Noor. The combined group was renamed Mediclinic International plc, with its main listing being on the London Stock Exchange and it is expected to be admitted to the FTSE 100 Index. In addition to the Al Noor shares received by Remgro, Remgro also subscribed for an additional 72 115 384 shares in Al Noor at £8.32 per share for an aggregate amount of £600 million during February 2016. £400 million was borrowed offshore and £200 million (or R4.3 billion) was borrowed in South Africa. During March 2016, the local bridge financing was replaced with newly issued fixed rate cumulative redeemable preference shares amounting to R4.4 billion with a tenor of five years and a fixed dividend rate of 8.3%, payable semi-annually.

Cash at the centre increased by R67 million to R4 086 million at 31 December 2015. During the period, Remgro's major investment was made in Mediclinic to the amount of R4 621 million and the main investment sold was Britehouse.

For the six months ended 31 December 2015, the interim dividend declared was 185 cents per share out of income reserves in respect of both the ordinary shares of no par value and the unlisted B ordinary shares of no par value. This represents a 9.5% increase from the interim dividend declared for the six months ended 31 December 2014 of 169 cents per share.

"Our concerns expressed at the year-end results have been aggravated by the political events that transpired over the Festive Season. With the rand remaining under pressure, the severe drought impacting most of our consumer-related investments and the uncertain economic conditions leading up to the municipal elections this year, we have a restrained outlook for the remaining six months of the financial year ending 30 June 2016. We remain of the opinion that Remgro's strategy to invest in industries that have a solid track record and investments with good future growth prospects will continue to benefit the group and its shareholders," concluded Jannie Durand, CEO of Remgro.

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