



## Interim Results Press Release for Remgro Limited

(Remgro)

### MAJOR INVESTMENTS DELIVER SOLID PERFORMANCE

- **Headline earnings per share increased by 25.9% to 868 cents**
- **Headline earnings per share, excluding once-off costs and option remeasurement, increased by 4.3% to 744 cents**
- **Interim dividend per share for the period increased by 4.9% to 194 cents**
- **Intrinsic net asset value per share as at 31 December 2016 was R257.79**

Remgro's major underlying investments, in particular its banking and healthcare investments, delivered a solid performance for the six months ended 31 December 2016. The industrial investments' contribution to headline earnings also showed a marked improvement compared to the December 2015 results. The food, liquor and home care as well as the infrastructure investments' results are an indication of the challenging economic and trading conditions affecting the South African consumer and manufacturing sectors.

During October 2016 Remgro completed a rights issue whereby 48 110 637 new Remgro ordinary shares and 3 550 635 B ordinary shares were issued at a subscription price of R192.50 per share for a total consideration of R9 944.8 million.

For the period under review headline earnings increased by 29.7% from R3 616 million to R4 690 million, while headline earnings per share (HEPS) increased by 25.9% from 689.4 cents to 867.7 cents. The difference in the increase between headline earnings and HEPS is attributed to the impact of the rights issue during the period under review.

Included in headline earnings for the comparative period are once-off transaction costs incurred with the Mediclinic rights issue and Al Noor Hospitals Group plc (Al Noor) transaction amounting to R128 million ("once-off costs"). The period under review includes a positive fair value adjustment of R667 million, relating to the decrease in value of the bondholders' exchange option (accounted for as a derivative liability) of the bonds ("option remeasurement") that were issued during March 2016 to partially refinance the foreign bridge funding that was raised for the Al Noor transaction. The bonds are exchangeable into Mediclinic plc shares and/or cash and fair value adjustments on the option (reflecting *inter alia* the movement in the underlying Mediclinic plc share price) are expected to cause volatility in headline earnings during its five-year term. Excluding these items, headline earnings increased by 7.5% from R3 744 million to R4 023 million, whereas HEPS increased by 4.3% from 713.8 cents to 744.3 cents.

The contribution from **food, liquor and homecare** to Remgro's headline earnings amounted to R945 million (2015: R1 242 million), representing a decrease of 23.9%. RCL Foods' contribution to Remgro's headline earnings decreased by 44.6% to R318 million (2015: R574 million). During the comparative period RCL Foods' results were positively impacted by the release of a R163 million provision raised for uncertain tax disputes as part of the Foodcorp acquisition. Excluding the above, RCL Foods' contribution to Remgro's headline earnings would have decreased by 29.0% from R448 million. This decrease is mainly due to a lower contribution from the Chicken business, partly offset by a strong Sugar business performance. The Chicken business was impacted by a massive oversupply in the local market caused by local production

and dumping of imported chicken, while the Sugar business benefitted from price increases which helped offset reduced volumes. Unilever's contribution to Remgro's headline earnings decreased by 14.3% to R263 million (2015: R307 million). This decrease is mainly the result of lower tax allowances following the completion of manufacturing investments, as well as a weakening trade environment. Distell's contribution to headline earnings, which includes the investment in Capevin Holdings, amounted to R364 million (2015: R361 million). Distell's results were negatively impacted by a stronger rand, particularly against the British pound, as well as intense competition and pressure on consumers.

The headline earnings contribution from the **banking** division amounted to R1 580 million (2015: R1 386 million), representing an increase of 14.0%. Both FirstRand and RMBH reported headline earnings growth of 14.0%. On a normalised basis, which excludes certain non-operational and accounting anomalies, mainly adjustments relating to the share based payment obligation, FirstRand and RMBH reported earnings growth of 6.7% and 6.4% respectively. These increases are mainly due to growth in both net interest income and non-interest revenue from FNB, RMB and WesBank, partly offset by an increase in credit impairment charges.

Mediclinic's, Remgro's only **healthcare** investment, contribution to headline earnings amounted to R983 million (2015: R787 million). This increase is mainly due to Remgro's increased interest in Mediclinic (42.1% to 44.6%), the inclusion of the results of Al Noor and Spire Healthcare Group plc (Spire) and a strong performance in Switzerland, as well as good organic growth in Southern Africa. The increase is partly offset by the underperforming Middle East business, which was impacted by a number of operational and regulatory factors, including the new insurance co-payment requirements, doctor vacancies and delayed facility openings.

RMI Holdings', Remgro's **insurance** investment, contribution to headline earnings increased by 8.1% to R492 million. On a normalised basis, RMI Holdings reported an increase of 11.2% in earnings, with OUTsurance and Discovery achieving earnings growth of 24.1% and 2.4% respectively, offset by lower earnings from MMI Holdings (lower by 3.8%). The strong result by OUTsurance was driven by a significant improvement in the cost-to-income ratio, particularly at Youi due to scale benefits and cost efficiencies.

**Industrial** includes Total's contribution to Remgro's headline earnings which amounted to R102 million (2015: R51 million). Included in the contribution to headline earnings for the period under review is unfavourable stock revaluations amounting to R28 million (2015: unfavourable stock revaluations of R144 million). These revaluations are the result of the volatility in the Brent Crude price and the rand exchange rate. Excluding these revaluations, the contribution decreased by 33.3% from R195 million to R130 million mainly due to a lower refining margin and lower volumes. Remgro's share of the results of KTH amounted to a profit of R58 million (2015: loss of R260 million). In the comparative period, 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 R151 million and R90 million respectively (2015: R142 million and R54 million), while PGSI contributed R25 million to Remgro's headline earnings (2015: R18 million).

Grindrod's, an **infrastructure** investment, contribution to Remgro's headline earnings amounted to a loss of R18 million (2015: a profit of R43 million). This loss is mainly the result of the continuation of weak commodity markets and low dry-bulk shipping rates during the period. For the period under review the CIV group contributed R44 million to headline earnings (2015: R35 million). Remgro's share of SEACOM's loss amounted to R18 million (2015: loss of R28 million).

**Media and sport** 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 amounted to R33 million (2015: R11 million), mainly due to higher advertising revenue as a result of an improvement in market share. The increase is partly offset by higher business development costs, as well as continued investment into the multi-channel business. Other media and sport interests' contribution to headline earnings amounted to a loss of R58 million (2015: loss of R39 million).

The contribution from **other investments** to headline earnings amounted to R39 million (2015: R31 million), of which Business Partners' contribution was R23 million (2015: R21 million).

**Central treasury and other net corporate costs** include finance income which amounted to R105 million (2015: R77 million). This increase is mainly due to higher average cash balances as a result of the Remgro rights issue. Finance costs mainly consist of funding costs amounting to R458 million (2015: R91 million) and once-off transaction costs in the comparative period amounting to R128 million, which relate to the Mediclinic rights issue and Al Noor transaction, as well as a positive fair value adjustment for the period under review of R667 million, relating to the decrease in the value of the exchange option of the exchangeable bonds. Other net corporate costs amounted to R75 million (2015: R194 million). The comparative period includes transaction and funding costs amounting to R115 million relating to Remgro's acquisition of Spire. These costs were recouped from Mediclinic as part of the Spire disposal consideration, outside headline earnings.

**Cash at the centre** increased by R8 515 million to R12 293 million at 31 December 2016 mainly as a result of the rights issue raising R9 813 million and dividends received of R2 572 million.

For the six months ended 31 December 2016, the interim dividend declared was 194 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 4.9% increase from the interim dividend declared for the six months ended 31 December 2015 of 185 cents per share.

Jannie Durand, CEO of Remgro, concluded: "The economic climate and political environment remain tough and volatile. Remgro continues to support its existing investments and invest in businesses that have a solid track record to ensure acceptable long-term returns on capital invested."

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