



Final Results Press Release for Remgro Limited

(Remgro)

REMGRO'S INTRINSIC NET ASSET VALUE POSITIVELY IMPACTED BY MEDICLINIC'S CORPORATE ACTIONS

- **Comparable headline earnings per share increased by 2.5% to 1 463 cents**
- **Intrinsic net asset value per share increased by 6.1% to R306.44**
- **Total dividend per share for the year increased by 7.5% to 460 cents**

The composition of Remgro's intrinsic net asset value has been positively impacted by Mediclinic International plc's (Mediclinic's) corporate actions, resulting in an increased investment in Mediclinic, mainly funded by debt raised at the centre. These corporate actions, inter alia, also cause comparability of the headline earnings to be challenging and therefore headline earnings is also presented on a comparable basis. Refer to the "Notes to the editor" for the calculation of comparable headline earnings.

Remgro's comparable headline earnings increased by 2.6% from R7 339 million to R7 529 million, whereas **comparable headline earnings per share** increased by 2.5% from 1 427 cents to 1 463 cents. This increase is mainly due to better operating performances by its banking, insurance, healthcare and industrial platforms, offset by lower earnings from RCL Foods, as well as Grindrod.

The contribution from **food, liquor and home care** to Remgro's comparable headline earnings amounted to R1 400 million (2015: R1 531 million), representing a decrease of 8.6%. RCL Foods' contribution decreased by 41.7% to R440 million mainly due to lower contributions from the Sugar and Chicken businesses. The Chicken business was impacted by a massive oversupply in the local market caused by local production and dumping, while the Sugar business remained under pressure due to the severe drought conditions. Unilever's contribution increased by 39.3% to R461 million (2015: R331 million). This increase is mainly the result of revenue growth and margin improvement. Distell's contribution, which includes the investment in Capevin Holdings, amounted to R499 million (2015: R445 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 weaker rand against the major currencies in which it trades.

The contribution from the **banking** division amounted to R2 989 million (2015: R2 845 million), representing an increase of 5.1%. FirstRand and RMBH reported headline earnings growth of 5.9% and 4.5% respectively. On a normalised basis, FirstRand and RMBH reported earnings growth of 7.4% and 7.0% respectively, mainly due to growth in both interest income and non-interest income from FNB, RMB and WesBank, partly offset by an increase in credit impairment charges, which reflect the deteriorating macro-economic environment.

Mediclinic's (**healthcare**) contribution to Remgro's comparable headline earnings amounted to R1 952 million (2015: R1 434 million). This 36.1% increase is mainly due to solid performances by all three operating platforms, as well as the positive effect of the weaker rand.

RMI Holdings' (**insurance**) contribution to Remgro's comparable headline earnings increased by 3.3% to R888 million (2015: R860 million). On a normalised basis, RMI Holdings reported an increase of 5.9% in earnings, with Discovery and OUTsurance achieving good earnings growth of 6.6% and 42.7% respectively, offset by lower earnings from MMI Holdings (lower by 15.8%). OUTsurance's growth can be attributed to the significant improvement in the contribution from the Youi group. The comparative year's results were negatively impacted by numerous weather-related catastrophes in Australia. MMI Holdings' decrease is mainly due to lower underwriting profits, as well as lower asset-based fees.

The **industrial** investments include Total's contribution of R291 million (2015: R133 million). Included in the contribution is unfavourable stock revaluations amounting to R88 million (2015: R286 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 9.5% from R419 million to R379 million mainly due to an excellent operational performance by NATREF in the comparative period, which the refinery was unable to repeat during the current reporting period. Remgro's share of the results of KTH amounted to a loss of R229 million (2015: loss of R108 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 contributions amounted to R275 million and R144 million, respectively (2015: R222 million and R104 million, respectively), while PGSI contributed R36 million (2015: R30 million).

Grindrod's, part of **infrastructure**, contribution amounted to a loss of R45 million (2015: a profit of R135 million). This decrease is mainly the result of weak commodity markets and significantly lower dry-bulk shipping rates. For the year under review the CIV group contributed R64 million (2015: R51 million). SEACOM reported a headline loss of R113 million for the year under review (2015: headline earnings of R96 million), with Remgro's share of this loss amounting to R33 million (2015: profit of R24 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 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 decreased by 59.4% to R28 million (2015: R69 million), mainly due to continued pressure on advertising revenue as a result of a sharp drop in market share during the previous financial year, leading to a considerable investment in local programming to recover market share, as well as continued investment into the multi-channel business. The sport interests' contribution amounted to a loss of R64 million (2015: loss of R85 million).

The contribution from **other investments** amounted to R67 million (2015: R84 million), of which Business Partners' contribution was R48 million (2015: R47 million).

Finance income amounted to R125 million (2015: R111 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** mainly consist of funding costs amounting to R221 million (on a comparable basis), which relate to the Mediclinic rights issue and Al Noor Hospitals Group plc (Al Noor) transaction. On a comparable basis, **other net corporate costs** amounted to R136 million (2015: R113 million).

Remgro's **intrinsic net asset value per share** increased by 6.1% from R288.89 at 30 June 2015 to R306.44 at 30 June 2016. The closing share price at 30 June 2016 was R254.66 (2015: R255.94) representing a discount of 16.9% (2015: 11.4%) to the intrinsic net asset value.

Mediclinic's contribution to Remgro's intrinsic net asset value for the year under review increased by 89.8% following the Spire Healthcare Group plc (Spire) and Al Noor transactions. During June 2015 Remgro facilitated Mediclinic's acquisition of Spire, concluded early 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. During January 2016

Remgro replaced the bridge financing by issuing fixed rate cumulative redeemable preference shares with a tenure of four years and a fixed dividend rate of 7.7%, payable semi-annually.

On 14 October 2015, Mediclinic and 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 relative size of Mediclinic and Al Noor, was classified as a reverse takeover of Al Noor. The combined group was renamed Mediclinic International plc and retained its premium listing on the Main Market of the London Stock Exchange (LSE). Mediclinic has a secondary listing on the JSE and was admitted to the FTSE 100 index of the LSE. In addition to the Al Noor shares received, 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. In order to fund the subscription, Remgro obtained bridge financing of which £400.0 million was borrowed offshore, while £200.0 million (or R4.3 billion) was borrowed in South Africa. On 16 March 2016 the local bridge financing was replaced with newly issued fixed rate cumulative redeemable preference shares amounting to R4.4 billion with a tenure of five years and a fixed dividend rate of 8.3%, payable semi-annually.

On 22 March 2016 Remgro refinanced £350 million of the foreign bridge financing by issuing exchangeable bonds with a tenure of five years at a fixed rate of 2.625%, payable semi-annually, exchangeable into approximately 30.9 million Mediclinic ordinary shares at an exchange price of £11.3086 per Mediclinic share. The exchange price premium is 30% above the weighted average price on the LSE between the launch and pricing of the bond offering. The initial offer was over-subscribed by 50%. Remgro will have the discretionary right to deliver an amount in cash or shares or a combination thereof upon exchange or redemption of these bonds. Bonds were included for trading on the open market segment of the Frankfurt Stock Exchange on 23 March 2016. Remgro's effective interest in Mediclinic on 30 June 2016 was 44.6% (June 2015: 42.0%).

Debt raised at the centre to fund the above transactions amounted to R16 452 million at 30 June 2016.

For the year ended 30 June 2016, the final dividend per share declared was 275 cents (together with the interim dividend of 185 cents, equates to a **total gross dividend** of 460 cents) 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 7.5% increase from the total dividend declared for the year ended 30 June 2015 of 428 cents per share.

Jannie Durand, CEO of Remgro, concluded: "The majority of Remgro's investments reported satisfactory results given the current economic environment as well as challenging trading conditions. Remgro's strategy to invest in businesses that have a solid track record and investments with sound business principles have and will continue to benefit the group and its stakeholders."

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Notes to the editor

Headline earnings

For the year to 30 June 2016, headline earnings and headline earnings per share decreased by 26.4% from R7 996 million to R5 887 million and from 1 555.0 cents to 1 143.9 cents, respectively.

Included in headline earnings for the year under review are once-off transaction costs incurred with the Mediclinic rights issue and Al Noor transaction amounting to R788 million, of which R402 million is Remgro's own costs and R386 million is Remgro's share of Mediclinic's transaction costs ("once-off costs"), as well as a fair value adjustment of R730 million, relating to the increase 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 shares and/or cash and fair value adjustments on the option (reflecting inter alia the movement in the underlying Mediclinic share price) are expected to cause volatility in headline earnings during its five-year term. Excluding these items, headline earnings decreased by 7.4% from R7 996 million to R7 405 million, whereas headline earnings per share decreased by 7.5% from 1 555.0 cents to 1 438.9 cents.

It should furthermore be noted that headline earnings includes other once-off items, which cause comparability of the results to be challenging. These are:

- Additional finance cost incurred with the Mediclinic rights issue and Al Noor transaction that were accounted for the three months to 30 June 2016 amounting to R245 million, whilst the equity accounted earnings for Mediclinic was recognised only for the period until 31 March 2016, since the Group lags Mediclinic's reporting period by three months;
- Facilitation and underwriting fees of R99 million received from Mediclinic in the 2015 financial year;
- Transaction and funding costs relating to the Spire transaction amounting to R115 million (2015: R38 million), whereas the recoupment of R153 million is included in profit on the sale of Spire to Mediclinic, outside headline earnings;
- Positive impact on RCL Foods' results with the release of a R163 million provision raised for uncertain tax disputes, as well as a R119 million gain on the exercise of the Zam Chick and Zamhatch put options (Remgro's portion being R218 million);
- Positive impact on Mediclinic's profit in the comparative year due to Swiss prior year tax adjustments of R712 million (Remgro's portion being R300 million);
- Positive impact on RMI's profit in the comparative year with the release of a put option liability at Discovery of R415 million (Remgro's portion being R126 million); and
- PRIF distributions of R170 million in the comparative year due to first close versus R18 million in the year under review resulting from the second and third closes.

Excluding all the aforementioned items, Remgro's comparable headline earnings increased from R7 339 million to R7 529 million (or 2.6%) mainly due to better operating performances by its banking, insurance, healthcare and industrial platforms, offset by lower earnings from RCL Foods, as well as Grindrod.

Contribution to headline earnings by reporting platform

R'million	Year ended 30 June 2016	Change %	Year ended 30 June 2015
Food, liquor and home care	1 618	5.7	1 531
Banking	2 989	5.1	2 845
Healthcare	1 566	(9.7)	1 734
Insurance	888	(9.9)	986
Industrial	517	35.7	381
Infrastructure	6	(98.5)	392
Media and sport	(36)	(125.0)	(16)
Other investments	67	(20.2)	84
Central treasury			
- finance income	125	12.6	111
- finance costs	(1 602)	-	-
Other net corporate costs	(251)	(382.7)	(52)
Headline earnings	5 887	(26.4)	7 996
Once-off costs	788	-	-
Option remeasurement	730	-	-
Headline earnings (excl. once-off costs and option remeasurement)	7 405	(7.4)	7 996