Remgro Limited

Interim Results Press Release for the six months ended 31 December 2018

REMGRO'S INVESTMENTS IMPACTED BY MARKET SENTIMENT

- **Headline earnings per share, excluding option remeasurement, decreased by 2.7% to 733 cents**
- **Headline earnings per share decreased by 3.3% to 752 cents**
- **Intrinsic net asset value per share decreased by 10.4% from R256.97 at 30 June 2018 to R230.23 at 31 December 2018**
- **Interim dividend per share for the period increased by 5.4% to 215 cents**

The majority of Remgro's investments continues to be impacted by global economic turmoil and severe competitive environments. This impact is further exacerbated by the Eskom-threat to the South African economy, which has already had a negative impact to the start of 2019.

For the period under review, headline earnings decreased by 3.3% from R4 406 million to R4 259 million, while headline earnings per share (HEPS) also decreased by 3.3% from 777.5 cents to 752.1 cents. Included in headline earnings for the period under review is a positive fair value adjustment amounting to R106 million (2017: R134 million), relating to the decrease in value of the bondholders' exchange option of the exchangeable bonds (option remeasurement). Excluding the option remeasurement, headline earnings decreased by 2.8% from R4 272 million to R4 153 million, whereas HEPS decreased by 2.7% from 753.9 cents to 733.4 cents. The decrease in headline earnings, excluding option remeasurement, is mainly due to lower earnings from Total South Africa Proprietary Limited (Total), Community Investment Ventures Holdings Proprietary Limited (CIVH), RCL Foods Limited (RCL Foods) and the exclusion of Unilever South Africa Holdings Proprietary Limited (Unilever) due to its disposal. The decrease is partly offset by the inclusion of Siqalo Foods Proprietary Limited (Siqalo Foods) and higher contributions from Mediclinic International plc (Mediclinic), Grindrod Limited (Grindrod) and the banking platform, as well as higher interest income.

Commentary on the performance of each of the underlying reporting platforms is set out in the Editor's notes.

Remgro's intrinsic net asset value per share decreased by 10.4% from R256.97 at 30 June 2018 to R230.23 at 31 December 2018. The closing share price at 31 December 2018 was R194.74 (30 June 2018: R204.29) representing a discount of 15.4% (30 June 2018: 20.5%) to the intrinsic net asset value.

Cash at the centre increased by R3 508 million to R17 212 million at 31 December 2018 mainly as a result of the Unilever disposal.

For the six months ended 31 December 2018, an interim dividend of 215 cents per share was declared 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 5.4% increase from the interim dividend declared for the period ended 31 December 2017 of 204 cents per share.

Jannie Durand, CEO of Remgro, concluded: *"Political instability, especially in the lead-up to the National Election on 8 May 2019, can be expected. The financial crisis faced by State-Owned Companies, like Eskom, is of great concern to all of Remgro's investments. Low business confidence and the deteriorating financial health of the consumer is also evidenced across the board. The majority of Remgro's investments have proven their resilience in the face of these adverse circumstances and despite the factors mentioned above, we believe our investments have strong balance sheets and will be able to weather the turbulent times. Although several challenges remain, Remgro will continue to support its current investments and invest in opportunities to unlock stakeholder value."*

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Editor's notes

Banking

The headline earnings contribution from the banking platform amounted to R1 775 million (2017: R1 678 million), representing an increase of 5.8%. FirstRand and RMH reported headline earnings growth of 6.1% and 5.7% respectively. RMH reported lower growth due to higher funding costs.

On a normalised basis, which excludes certain non-operational and accounting anomalies, and is a better reflection of underlying performance, FirstRand and RMH reported earnings growth of 7.1% and 6.7% respectively. These increases are mainly due to growth in both net interest income, underpinned by solid growth in advances and deposits, and non-interest revenue due to strong fee and commission income growth. This growth in earnings was partly offset by an increase of 16% in non-performing loans, in part reflecting strong book growth, as well as reflecting the *IFRS 9* impairment provisioning methodology resulting in an increase in credit impairment charges.

Healthcare

Mediclinic's contribution to Remgro's headline earnings amounted to R623 million (2017: R487 million), representing an increase of 27.9%. As previously reported, Mediclinic's contribution for the comparative period included an accelerated amortisation charge of R171 million relating to the rebranding of all the Al Noor facilities to Mediclinic. Excluding the impact of the accelerated amortisation in the comparative period, Mediclinic's contribution to Remgro's headline earnings would have decreased by 5.3% from R658 million to R623 million. In British pound terms Mediclinic's contribution, excluding the accelerated amortisation, decreased by 8.6% mainly due to a lower contribution from the Switzerland division, partly offset by a stronger performance by the Southern Africa and Middle East operating divisions.

Switzerland's underperformance was a direct result of recent regulatory changes in the Swiss healthcare market which impacted all providers. These changes included the implementation of national outpatient tariff (TARMED) reductions and the outmigration of identified clinical treatments, transferring from an inpatient to an outpatient tariff across many cantons. Steps have been taken to improve the current financial performance through securing revenue growth, reducing costs and driving efficiency savings in different areas of the business. Additional medium term actions include improving service differentiation across insurance categories, doctor recruitment initiatives and advancing the outpatient delivery model.

Consumer products

The contribution from consumer products to Remgro's headline earnings amounted to R932 million (2017: R1 140 million), representing a decrease of 18.2%.

RCL Foods' contribution to Remgro's headline earnings decreased by 26.5% to R366 million (2017: R498 million). This decrease is mainly due to significant challenges within the Sugar and Chicken business units resulting from lower prices realised, mainly due to oversupply, and higher commodity and transport costs. Profitability in the Chicken business unit was hampered by dumped imports entering the market leading to lower pricing and an increase in feed costs. The Sugar business unit was impacted by reduced domestic sugar consumption, brought about by, inter alia, the implementation of the Health Promotion Levy (sugar tax), and the continued volumes of dumped imports, resulting in a shift in sales mix towards raw (unrefined) exports. Export prices were significantly lower than local prices due to suppressed worldwide sugar prices. The Groceries cluster however, delivered solid growth, benefiting from volume and margin increases in the Grocery and Pies portfolios and market share gains in several categories.

Distell's contribution to headline earnings amounted to R399 million (2017: R354 million), representing an increase of 12.7%. Note that the comparative period included the contribution from Capevin Holdings Limited. Distell reported headline earnings growth, adjusted for retrenchment and restructuring costs, the Tanzania Distilleries Limited once-off losses in the comparative period and foreign exchange movements, of 6.6%, mainly due to solid revenue growth in the South African and other African markets. In addition to Distell's contribution, Remgro also accounted for amortisation and depreciation charges of R24 million relating to the additional assets identified when Remgro obtained control over Distell on 11 May 2018.

On 2 July 2018 Unilever acquired Remgro's 25.75% shareholding in Unilever in exchange for Unilever's Spreads business in Southern Africa, namely Siqalo Foods, as well as a cash consideration of R4 900 million. As a result, no headline earnings contribution was accounted for Unilever (2017: R288 million), however, Siqalo Foods' contribution to Remgro's headline earnings for the period under review amounted to R231 million. In addition to Siqalo Foods' contribution, Remgro also accounted for amortisation and depreciation charges of R40 million relating to the additional assets identified when Remgro obtained control over Siqalo Foods.

Insurance

Rand Merchant Investment Holdings Limited's (RMI) contribution to Remgro's headline earnings decreased by 7.0% to R582 million (2017: R626 million). On a normalised basis, RMI reported a decrease of 8.2% in earnings mainly due to lower contributions from Discovery Holdings Limited (Discovery) and OUTsurance Holdings Limited (OUTsurance). Discovery's contribution to RMI decreased by 16.6% due to significant spend on new initiatives, a spike in large mortality claims at Discovery Life and the negative impact of the transition from *IAS 39* to *IFRS 9*. OUTsurance's contribution decreased by 5.8% due to exceptionally low claims in the comparative period, higher natural peril claims in Australia, corrective pricing measures to recognise lower accident frequencies and significant investments in new business growth activities. The contribution of MMI Holdings Limited increased by 5.7% and that of Hastings Group Holdings plc decreased by 8.9%.

Industrial

Air Products South Africa Proprietary Limited's (Air Products) contribution to Remgro's headline earnings increased by 22.5% to R174 million (2017: R142 million). This increase is mainly due to an improvement in gas volumes and successful cost containment initiatives.

Total's contribution to Remgro's headline earnings amounted to R101 million (2017: R258 million). Included in the contribution to headline earnings for the period under review are unfavourable stock revaluations amounting to R75 million (2017: favourable stock revaluations of R135 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 43.1% from R123 million to R176 million. This increase is mainly due to an increase in turnover resulting from higher sales volumes in the mining and reseller sector.

Kagiso Tiso Holdings Proprietary Limited's (KTH) and Wispeco Holdings Proprietary Limited's (Wispeco) contributions to headline earnings amounted to R77 million and R52 million (2017: R73 million and

R62 million), while PGSI Limited (PGSI) contributed R8 million to Remgro's headline earnings (2017: R16 million).

Infrastructure

CIVH's contribution to Remgro's headline earnings amounted to a loss of R104 million (2017: profit of R32 million). The results were negatively impacted by the acquisition of a 34.9% stake in Vumatel Proprietary Limited (Vumatel), which was implemented during June 2018. Included in CIVH's results were finance costs amounting to R136 million, relating to the financing of the Vumatel acquisition, as well as Vumatel's equity accounted losses amounting to R41 million. Excluding the aforesaid Vumatel impact, the contribution to headline earnings decreased from a profit of R32 million to a loss of R11 million mainly due to Dark Fibre Africa Proprietary Limited's (DFA) higher depreciation and finance costs as a result of the expanding network. Despite the decrease in earnings, DFA's revenue increased by 18.2% to R1 067 million (2017: R903 million) mainly due to strong growth in annuity revenue.

Grindrod's contribution to Remgro's headline earnings amounted to R101 million (2017: a loss of R52 million). The increase is mainly due to improved results across core businesses, resulting from increased commodity demand, whereas the comparative period included stock impairments in the rail assembly business, due to the closure of this business unit, and losses from the shipping division.

During June 2018 Grindrod completed the separate listing of its shipping division and Remgro received Grindrod Shipping Holdings Limited (Grindrod Shipping) shares as a dividend *in specie*. Grindrod Shipping's contribution to Remgro's headline earnings amounted to a loss of R18 million (included in the 2017 contribution of Grindrod: R62 million).

Remgro's share of SEACOM's loss amounted to R1 million (2017: a profit of R32 million). This decrease is mainly due to a once-off realisation of deferred revenue relating to the early termination of long-term contracts in the comparative period, as well as the negative impact of the implementation of *IFRS 15* in the period under review.

Media and sport

Media and sport primarily consist of the interests in eMedia Investments Proprietary Limited (eMedia Investments) and various sport interests, including an interest in the Blue Bulls rugby franchise and Stellenbosch Academy of Sport Properties Proprietary Limited.

eMedia Investments' contribution to Remgro's headline earnings increased to R11 million (2017: R3 million). This increase is mainly due to an increase in revenue, as well as a lower investment into the multi-channel business (Openview and e.tv multichannel).

Other investments

The contribution from other investments to headline earnings amounted to R15 million (2017: R29 million), of which Business Partners Limited's contribution was R29 million (2017: R29 million).

Central treasury and other net corporate costs

Finance income amounted to R397 million (2017: R259 million). This increase is mainly due to higher average cash balances as a result of the Unilever disposal. Finance costs amounted to R459 million (2017: R452 million). The positive fair value adjustment of R106 million (2017: R134 million) relates to the decrease in the value of the exchange option of the exchangeable bonds. Other net corporate costs amounted to R112 million (2017: R60 million). The increase in other net corporate costs is mainly due to the utilisation of corporate taxation credits in the comparative period.